

# ***JPRS Report***

---

**China**

---

# China

JPRS-CAR-94-019

## CONTENTS

22 March 1994

### POLITICAL

- Article Calls For Abandoning Old Concepts [ZHONGGUO QINGNIAN 1 Jan] ..... 1

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Center Forecasts Economic 'Early Rebound' [JINGJI RIBAO 19 Jan] ..... 3

#### FINANCE, BANKING

- Tax Director Summarizes Tax Reform [JINRONG SHIBAO 17 Jan] ..... 4  
Article on Implementation of New Financial Reform [JINGJI CANKAO BAO 11 Jan] ..... 10

#### INDUSTRY

- GATT Impact on Industry, Prices [JIAGE LILUN YU SHIJIAN 20 Dec] ..... 12  
Machine, Electronics Industries Advance [JIDIAN RIBAO 19 Jan] ..... 19

#### FOREIGN TRADE, INVESTMENT

- Foreign Firm Mergers, Acquisitions Discussed [GUOJI SHANGBAO 15 Jan] ..... 23

#### AGRICULTURE

- Rural Reform, Land System Viewed [ZHONGGUO NONGCUN JINGJI 20 Dec] ..... 25

### SOCIAL

- Current State of Physically Challenged Persons [SHEHUI KEXUE 15 Jan] ..... 31  
Article Analyzes Phenomenon of Structural Corruption [SHEHUI Jan] ..... 32  
Three Types of 'Pseudo-Aristocrats' [FAZHI YUEKAN 5 Oct] ..... 34  
Rapid Growth of Underground Criminal Societies [SHEHUI Oct] ..... 34

### MILITARY, PUBLIC SECURITY

- Rapid Growth of Underground Criminal Societies [SHEHUI Oct] ..... 37  
Qinghai MD Commander on Conscription [QINGHAI RIBAO 4 Dec] ..... 38  
PSB, Customs Counter Smuggling Operations [RENMIN GONGAN BAO 23 Dec] ..... 38

### HONG KONG

- Realignment of Political Forces in Prospect [TANGTAI 15 Nov] ..... 40  
'Sharp Words' Between Hao Po-tsun, Li Teng-hui [HSIN HSIN WEN 18 Dec] ..... 41  
Investigation Bureau Gets Involved in Elections [HSIN HSIN WEN 25 Dec] ..... 43

### Article Calls For Abandoning Old Concepts

94CM0161A Beijing ZHONGGUO QINGNIAN  
in Chinese No 1, 1 Jan 94 pp 12-13

[Article by Qiu Xiaohua (6726 2556 5478): "Further Eliminate Remnants of Old Concepts"]

[Text] Anyone who has been paying close attention to China's experience in opening and reform can see that every time there is some major accomplishment in this area, it is always accompanied by a major breakthrough in people's conceptual views. The history of China's 15 years of reform is really a history of the Chinese people's continually studying, debating, liberating their thinking and changing their ideas, all under the leading banner of Deng Xiaoping's "building socialism with Chinese characteristics".

After Deng Xiaoping's visit to the south of China in 1992, many people breathed a sigh of relief. They believed that the theoretical puzzle which had been murky for years had now been clarified now by comrade Xiaoping's thunderous voice, and the theoretical barriers to further reform and opening theory had been eradicated, and the only question remaining in establishing the socialist market economic system was how to operate it. But I am not so optimistic.

To be sure, the 14th Party Congress determined that China's reform objective is to establish the new socialist market economic system, thus ending disputes over the goals of reform. It reached agreements concerning the general direction of reform for the party and the nation, such as, "the ice jam has been broken, the shipping channels are open." However, to really break the invisible conceptual shackles on reform and opening and social development, there is much hard work still remaining to be done. This is because it will for some time be hard to heal the remnants of old concepts produced by traditional socialist theory and practice, and these are still preventing us from going forward. These "remnants" concentrate on three aspects: 1) "Is it the socialism or capitalism"; 2) "Is it state ownership or private ownership"; 3) "What is the real relationship between plan and market"? Although comrade Xiaoping's speech on his visit to the south of China brought people a great way forward in understanding these questions, it is still far from resolving many people's uncertainties. In the practice of reform and opening, it is usually the case that these ingrained "remnants" quietly pop up, affecting people's vision and restricting their activities.

So, it is still necessary for us to hold multiple "consultations" on these "remnants."

—Concerning "capitalism or socialism." In reality, there has never been fixed, inflexible capitalism, nor fixed, inflexible socialism. Real capitalism and socialism have in many regards surpassed what they were designed to be in Marx's time. Marx never put socialism absolutely in opposition to capitalism;

rather, he stressed that socialism spun off from capitalism, developing capitalism's good factors and abandoning its bad aspects. Socialism with Chinese characteristics is no longer the socialism in the past meaning of a planned economy rejecting markets, but a combination of China's situation and socialism. This socialism combines the general socialist system with market economics, a socialism which embodies the future course of societal development. The nature of socialism is to create much higher efficiency than capitalism can, liberating and developing productive forces but not other things. Therefore, we shouldn't adopt some pattern as the principle, but should adhere totally to the principle of development. But regardless of whether we call it "socialism" or "capitalism", if it is favorable to developing the productive forces, strengthens the Chinese people's capacities, and improves their standard of living, we will take advantage of it and use it. Otherwise, no matter what it is, we should abandon it.

—Concerning "state ownership" or "private ownership." It is most difficult to change ideas on this question. In spite of repeated emphasis by the party and the state that while we "must adhere to state ownership being the main part, multiple economic elements can still coexist and develop together", many people can agree with this verbally, but in their practical work they turn pale at the mention of "private ownership". In their view, without "the state" title, we cannot have an orthodox public ownership system, an example of how the existence of private ownership is further restricted.

This sort of "private ownership panic" does considerable harm to developing our national economy. We cannot assume that this phenomenon is normal—on the one hand, stressing that the people are the masters of society, while on the other hand fearing the masters owning a portion of that society's wealth; on the one hand believing that three farmers back in the fifties organizing a cooperative was "public", while on the other hand believing it is not public ownership if thousands of people establish enterprises by investing in stock. We should be more bold in admitting that "private ownership" is to a certain degree an intrinsic requirement of socialism, and that socialism absolutely does not reject "private ownership"; on the contrary, it is more extensive and deep than it is in capitalism. Only in this way can it embody social and historical progress. Of course, this sort of private ownership within socialism is not a totally chaotic mutual massacre, mutually predatory, but an orderly, fair, competitive "private ownership" which takes socialist public ownership as the dominant factor, under state intervention and supervision. This means that this kind of "private ownership" is clearly characterized by fairness.

"Public" and "private" are interchangeable, they are only one important aspect in production relationships, just bringing about the developmental "pattern" of the productive forces. They must both comply with the



demands of productive forces, but must not replace the productive forces as our standard for judging success or failure. If something is favorable to liberating and developing productive forces, we should not be obsessed with the "public" versus "private" argument. In other words, the only standard for accepting or rejecting "public" or "private" should be whether it liberates and develops the productive forces. No matter whether "private" or "public", if they can promote development of the productive forces, then they deserve our protection; if not, then we should abandon them.

—Concerning "plan" and "market." In the contemporary world, there is no economy which is dominated absolutely by a planned economy, no matter what type of social system, nor is there an absolutely market-dominated economy either, both types are always mutually compatible and supportive. Plans always have certain subjective features, representative of governmental will; markets always have certain objective features, representative of mutually supportive rules inside matters. "Plan" and "market" are both only means of resource allocation, and this is so no matter what their nature, no matter whether good or bad, "capitalism" or "socialism." Overall, planned measures can be adopted, and so can market means if they are favorable to liberating and developing the productive forces. We need not be obsessed with debating whether the "plan" or the "market" is right or bad, which is the more important or the less important.

We must completely abandon those "leftist", unsuitable, and impractical old concepts of socialism in our minds, we must be cured of the remnants of old concepts brought on by traditional socialist theory and practice. The only good treatment is insistence on the party's ideological line of seeking truth from facts.

Seeking truth from facts is the quintessence of Mao Zedong thought, and is also the moral nature of Deng Xiaoping's basic theory of building socialism with Chinese characteristics. For a long time, especially prior to the 3rd Plenary Session of the 11th Party Central Committee, we made a big mistake in that while building up socialist theory we deviated from the ideological line of seeking truth from facts, emphasizing thought drawn from abstract principles and ignoring the practical base

of theories. The result was that while things always looked perfect in theory, with nothing to criticize, they obviously departed from reality, and the degree of accomplishment of these theories was very low. A great person has said that the value of a theory lies in the degree of its accomplishment. We cannot imagine that a theory can be dissociated from reality but still be regarded as correct and valuable. The reason why traditional socialist theory has suffered setbacks is that it has never really been rooted in the fertile land of the various socialist countries. Theory is one thing, practice is another, and separating the two must make for a lack of vitality. This is also precisely the reason why people are calling strongly for reform and theoretical renewal.

Therefore, in the process of establishing a socialist market economic system, we cannot commit the same mistakes of traditional socialist theory, but must adhere to starting out from practice. One part of this practice is the basic national situation of China. Its major characteristics are: a huge population, especially the rural population; backward productive forces, especially the backward rural economy, and the gap between the urban and the rural; unbalanced regional development and a substantial imbalance in industrial development; high gross economic value, but a low average level. On the other hand, to be a member of the world, we must take into account doing business in compliance with international regulations. This is our reality, this is where we stand in constructing the socialist Chinese market economy, and neither in formulating theory nor in renewing theory can we ignore this reality.

The three fundamental principles of "if it is favorable to developing socialist productive forces, if it is favorable to strengthening the overall capacity of a socialist country, if it is favorable to improving the people's living standard" set forth by comrade Xiaoping's speech during his visit to the south of China, shine brightly in ideological brilliance. These are the basic standards which determine and judge each step in our reform, and are also our effective proof in seeking to accomplish the goals of reform. In our practice, we must abandon those ideologies and concepts that do not match up with the "three favorable" principle, and we should persist in the correct and correct the wrong, to be worthy of this great historical mission.



## NATIONAL AFFAIRS, POLICY

### Center Forecasts Economic 'Early Rebound'

94CE0301A Beijing JINGJI RIBAO in Chinese  
19 Jan 94 p 2

[Article by Cast Economic Evaluation Center: "Economic Cycle Rebounds; Relaxed Environment Remains To Be Created"—Two graphics not reproduced]

[Text] Sign of Exceptionally Early Rebound Appears in Current Economic Performance

At the end of June 1993, the central authorities had resolutely adopted a series of measures to stabilize the economy. By November, the "overheated" economy was notably controlled. The target to exercise macro-economic control were basically achieved as expected. The Cast [kasite 0595 2448 3676] index shows that the uniform composite index fell from its peak of 115.3 to 106 with an average monthly drop of 1.8 percent. The comprehensive evaluation mark dropped from the middle section of the red light zone (54 points) to the lower limit of the yellow light zone (43 points). All this indicates that the economy is approaching normal operation. The measures taken this time have drawn support from the relatively tight monetary policy.

Since the last quarter of 1993, the tight monetary policy had begun to slacken off. The indexes of the narrowest measure of money supply M1 and the broader measure of money supply M2 had rapidly risen in December with their rate of growth reaching 20.87 percent and 23.7 percent. The rate of growth of the total industrial production value stopped to fall since November. It rose to 29.7 percent in December, 10.8 percent higher than that in November. Incentive for more investment was once again aroused. The uniform composite index in December rose by 1.9 percent over November. The comprehensive economic index increased to 48 points showing itself within the upper limit of the yellow light zone. As seen from the present moment, the exceptionally early rebound in the entire economy merits attention, although indicators of one month cannot represent the whole situation.

### Two Possibilities Affecting 1994 Economic Trends

Due to the fact that policies for macro-economic control may vary in the days to come, there may be two different trends in the development of our overall economy.

1. The monetary policy which has already become relaxed will continue to slacken off. This will make the economy to grow rapidly. As a result, the need for macro-economic control will once again become pressing, and original problems such as serious unbalanced economic developments, various "bottlenecks" and inflation will once again crop up. This will prevent the various on-going reform measures from being smoothly carried out. Also, it may force the government to readjust its economy and use "emergency brakes."

2. Timely and adequate measures will be adopted to exercise micro-economic adjustments, to strengthen guidance over the economic sector, to control the growth of investments and money supply and to optimize the economic structure by selecting the proper investments. Under this kind of situation, the general economic trend may possibly be as follows:

The rate of economic growth will drop to 9-10 percent from the 13 percent in 1993, and the commodity price index will drop below 10 percent from the 13 percent in 1993. As a result, the uniform composite index will only fluctuate on a small scale, and our overall economy will remain in the area between the green light zone and the yellow light zone. This kind of comparatively relaxed environment will not only help the smooth transition of the economic cycle to the economic expansionary period. It will also help quicken the tempo in carrying out reform and in making preparations for the rapid economic growth in the near future.

### How To Create a Relaxed Economic Environment

This year is the first year of great significance in carrying out reform. Studies and practice at home and abroad indicate that the announcement and implementation of policies in carrying out reform must keep pace with the economic cycle. Generally speaking, reforms in financial affairs, taxation, commodity prices and investments are usually carried out in the period of economic decline so that such reforms would have less negative impact. Therefore, this year's macro-economic control is basically aimed at continuously creating a stable economic environment which is conducive to the reform program and at reducing the shock the program may possibly create to the minimum.

A relaxed environment in 1994 is mainly determined by the following three factors:

1) A stable price index. Commodity prices constitute a direct factor in affecting social stability. Right now, we still need to prevent the inflation from going beyond the endurance of the society. We must strive to keep the price rises below the 10 percent level.

2) Adequate rate of growth. The history of China's economic cycle indicates that China's economy is mainly one of "speed-effectiveness" type. An excessively high rate of growth often drives the economy into the red light zone and makes us feel notably restrained by the environment. Therefore, we should keep the rate of growth of our GNP below 10 percent in 1994.

3) Flexible monetary policy. Since the implementation of the reform and opening up program, we discover that the several economic fluctuations in the past were invariably connected with the monetary policy. In most of the cases, the tightening of the monetary policy was often the first choice in preventing our economy from entering the red light zone. The monetary policy will still play an important role in 1994. We should control our economy by adopting the form of "tightening the overall economy,

while relaxing the control over specific projects." That means to place the overall economy under control, while ensuring the fulfillment of important economic plans.

## FINANCE, BANKING

### Tax Director Summarizes Tax Reform

94CE0310A Beijing JINRONG SHIBAO in Chinese  
17 Jan 94 pp 1, 2

[Report on and full text of speech at China Tax Reform Publicity Conference by Director of the State Administration of Taxation Jin Xin (6855 9515): "I Solemnly Declare That the New Tax System Will Not Increase the Tax Burden on Any Foreign Investor"]

[Text] "As director of the State Administration of Taxation, I declare that the new tax system will not increase the tax burden on any foreign investor!" This was the sonorous and forceful tone on which Jin Xin, director of the State Administration of Taxation, ended his speech at the China Tax Reform Publicity Conference on the morning of 14 January 1994.

This Publicity Conference was sponsored by the State Administration of Taxation, being aimed at better publicizing to the outside world the meaning and function of the current tax-system reform, so that foreign investors can better understand China's taxes. It was attended by over 500 participants, such as delegates from some countries' embassies and consulates in China, and representatives of some longstanding foreign-invested enterprises [FIEs] and foreign enterprises in China.

Tax Director Jin Xin gave an important speech at the conference entitled "The New Tax-Revenue System in Our Socialist Market Economy," the full text of which is published below:

China's tax reform is a key component part of our system reform to achieve a socialist market economy. Before New Year's Day, the NPC and State Council promulgated new tax laws and regulations. This was another crucial step in opening up wider to the outside world and steadily improving our investment climate. China's tax reform not only is of universal concern to our vast numbers of taxpayers, but also has attracted the attention of the governments of all countries and our friends throughout the world. The China Tax Reform Publicity Conference being held here today by the State Administration of Taxation is aimed mainly at fully explaining and interpreting the aims, principles, contents, and pertinent policies of China's tax reform. We hope that all will understand and support them, as well as strictly enforcing them in future economic activities.

### I. Tax Reform Was Imperative To Achieve a Socialist Market Economy

As all know, the 14th CPC Congress set in October 1992 the goal model of China's economic reforms as the achievement of a socialist market economy. Then in the

spring of 1993, the First Session of the Eighth NPC passed a constitutional amendment, stipulating in the Constitution that "China will practice a socialist market economy," which provided fundamental legal safeguards for China's economic reforms. In November 1993, the Third Plenary Session of the 14th CPC Central Committee approved the "Resolution on Certain Matters Involved in Establishing a Socialist Market Economy," particularizing and systematizing the reform objectives and basic principles involved in the establishment of a socialist market economy, which formed the essential framework of our socialist market economy system, as well as drawing the general blueprint for continued intensification of reform. That was China's program of action for seizing the opportunity to accelerate our reform and development. Our socialist market economy is a legal economy, not a laissez-faire economy; our socialist market economy's spirit is one of orderly and equal competition, not disorderly and unsystematic competition; fair tax burdens are one of the key conditions for fair and orderly competition premised on the legal system. So tax reform is a key component part of economic reform.

China's tax reform is aimed at establishing a tax-revenue system to meet the needs of our socialist market economy and modernization, or one that conforms to both international practice and China's national conditions. The guiding ideology of China's tax reform is to consolidate our tax laws, set fair tax burdens, streamline our tax system, rationalize our separation of powers, bring order to our distribution relations, and ensure state revenue, by establishing a tax-revenue system that is in line with the needs of our socialist market economy.

Ever since 1979, China has adhered to a policy of reform and opening focused on economic development, taking the path of socialism with distinct Chinese characteristics. In our economic development, we have used two resources—domestic and overseas resources; opened up two markets—domestic and overseas markets; and learned two skills—how to organize our domestic economic development and develop foreign economic relations. In our reform and opening, we have supplemented our disadvantages with the whole world's advantages, revitalizing ourselves with the might of all five continents. Our aim is to have begun to establish our socialist market economy by the end of the century, in order to realize our second strategic objective for our national economy and social development.

In our 15 years of reform and opening, China has successfully set up SEZs, EDZs, high-tech industrial development zones, and open zones along the Chang Jiang [Yangtze] and our borders. We have now evolved a multi-level, all-dimensional open order of an open region on our eastern seacoast, one along the banks of the Chang Jiang headed by the Pudong Development Zone in Shanghai, and an inland one centered in provincial capitals. By the end of 1993, our number of foreign-invested projects had accumulated to nearly 180,000, including over 80,000 new ones in that year alone; our



attracted foreign investments had accumulated to an agreed amount of \$220 billion, with the agreed amount for 1993 alone at nearly \$110 billion, and the actual foreign investment in China had accumulated to over \$60 billion, including almost \$22 billion for 1993, or just about double that of 1992.

In our 15 years of reform and opening, we have steadily expanded our foreign-investment fields, from the priority in the early days of reform and opening on attracting production-type foreign investment, to the approval in 1993 of experimentation in some areas with commercial retail enterprises; from permission to invest in primary and secondary industries, which was expanded to permission to set up with approval tertiary industries, such as the establishment in SEZs, the New Pudong zone, and other places approved by the State Council of Sino-foreign joint-venture or wholly foreign-owned banks and insurance companies. This shows that we have steadily expanded our investment fields, gradually adding industrial categories.

In our 15 years of reform and opening, we have gradually improved our investment climate. Taking FIE income taxes for instance, in the early 1980s, China promulgated the Sino-Foreign Joint-Venture Enterprise Income Tax Law and the Foreign Enterprise Income Tax Law. But after summing up a decade of experience and drawing on valuable overseas methods, we consolidated the above two laws on 1 July 1991 into the FIE and Foreign Enterprise Income Tax Law, consolidating their tax-revenue jurisdiction, tax rates, and preferential policies. In order to develop our socialist market economy and promote equal competition among enterprises, we have conducted in 1994 a complete, overall, and structural reform of the tax system, with one of our key aims being to better improve China's investment climate.

All know that since 1979, China's tax system involving foreigners has been gradually established, developed, and perfected along with our steady intensification and expansion of reform and opening. Since the Third Plenary Session of the 11th CPC Central Committee, in order to meet reform and opening needs and promote domestic economic reform, our tax-collection categories involving foreigners, such as our enterprise and individual income taxes with the amount of income as the collection target; our consolidated industrial and commercial tax with the flow volume as the collection target; and local taxes, such as real estate and motor vehicle and ship use-license taxes with assets as the collection target, have all been differentiated for taxpayers in a unique system. In short, since reform and opening in 1979, we have always used two tax systems for domestic and foreign, with separate collections. For instance, regarding flow taxes alone, our FIE flow tax is the collection of a consolidated industrial and commercial tax based on the 1958 Consolidated Industrial and Commercial Tax Ordinance (draft) and pertinent regulations passed in principle by the 101st Session of the NPC Standing Committee and promulgated for testing by the State Council. But our domestic-enterprise flow

tax was changed on 1 October 1984 from the collection of the industrial and commercial tax to collection of product, value-added, and business taxes based on the Product Tax, Value-Added Tax, and Business Tax Ordinance (draft) published by the State Council on 1 September 1984. In order to help promote domestic-enterprise tax reform and prevent unnecessary concern by foreign firms, at the time of our 1984 tax reform, the "NPC Standing Committee Resolution on Authorizing the State Council To Reform the Trial Ordinance Published on the Industrial and Commercial Tax" clearly provided that "the preceding ordinance draft published for testing by the State Council is not applicable to Sino-foreign joint-venture enterprises and FIEs." So our collection of flow taxes from FIEs always acted in accordance with the Consolidated Industrial and Commercial Tax Ordinance (draft). And while it should be said that the flow-tax model set up in the early 1980s basically met the needs of China's economic reform and development at the time, playing the role of regulating the enterprise profit-gap, easing irrational price conflicts, and promoting the in-depth development of economic reform, the guiding ideology of using different tax rates to fully regulate production, circulation, and consumption essentially carried a clear stamp of the state using administrative means to manage the economy. But as our socialist market economy goal model has been established, this flow-tax system hardly any longer meets our economic reform and development needs. This can be seen mainly in that:

1. The tax-category structure is irrational. A) In the industrial production link, we collect product taxes on some products, and value-added taxes on others. Such a structure of two concurrent taxes contributes neither to the inherent role of the value-added tax, or to the special regulatory function of the product tax. B) From the perspective of the whole commodity-circulation process, collecting product or value-added taxes at the production link, business taxes on the purchase-sale price difference at the wholesale link, and business taxes again on total sales volume at the retail link, means separate tax collection on differing taxable grounds for a single commodity in the circulation process, leaving the tax system without continuity, causing more lost revenue, and making it hard for flow taxes to fully play their role in organizing revenues. C) In separate collection in different categories for domestic and foreign enterprises, nonuniform tax policy creates many conflicts.

2. There are too many tax-rate grades, making tax burdens unequal. As our market economy grows, the prices of all categories of merchandise are gradually being deregulated, causing an increasingly glaring conflict of larger tax-rate differences among industries, enterprises, and products, which contributes to neither fair competition among enterprises, or to bringing into full play the basic impact of market forces in the disposition of resources.

3. Nominal tax rates are too high. Too many tax concessions of all types, such as reductions and exemptions, are



steadily eroding the tax base, with real tax burdens declining yearly. Such a state of high tax rates, many reductions and exemptions, and low tax burdens, severely affects the solemnity of the tax laws.

4. The Consolidated Industrial and Commercial Tax Ordinance was promulgated over three decades ago, clearly no longer meeting current economic development needs. While it has been revised repeatedly in line with economic development, the consolidated industrial and commercial tax remains too narrow in coverage and scope, with quite a few taxable products and business items not having corresponding taxable-item tax rates; the conflicts of too many links and duplicate collections are growing increasingly glaring; and the product-tax burdens for domestic and foreign-invested enterprises are generally uneven.

In summary, China's pre-reform industrial and commercial tax system, due to its coexistence of two systems for domestic and foreign, was the basic cause of unfair tax burdens, as well as being the objective expression of many conflicts in the system-conversion process. Our establishment of a socialist market economy has presented a pressing demand for tax reform, as well as opening up fine tax-reform prospects. Through tax reform, we are gradually consolidating our tax laws and rates, putting enterprises of various natures all on a level playing field for fair competition, in order to speed up our socialist market economy development.

## II. China's Current Tax Reform Is Characterized as Complete, Overall, and Structural

The "Resolution on Certain Matters Involved in the Establishment of a Socialist Market Economy" of the Third Plenary Session of the 14th CPC Central Committee clearly provided for and expressed our tax-reform direction, goal model, and even particular policies. It was our tax-reform grounds. This tax reform involves most of our former tax categories, with its particular substance including mainly the following areas:

### Flow Tax System Reform

As the flow tax is the major part of China's tax structure, involving much revenue on a wide scale, flow-tax reform is the crux of this tax reform. Before reform, China's flow taxes were mainly in four categories: product, value-added, and business taxes on domestic enterprises, and the consolidated industrial and commercial tax on FIEs and foreign enterprises. Moreover, the tax rates for these categories were designed to regulate the economy on the terms of mostly planned prices, having too many tax-rate grades, and too great a difference between high and low. But our prices have now been largely deregulated. So in order to ensure that China's flow-tax system meets our market-economy needs and is in line with the basic international trend of flow-tax reform, we have changed from our traditional method of setting separate taxable items based on products, and of setting different tax rates for separate taxable items, to generally collecting value-added taxes at the production and circulation

links, on which basis we have selected a few consumer goods for further collection of a consumption [excise] tax. For provision of labor, transfer of invisible assets, and sale of real property, we are continuing the flow-tax model of collecting business taxes.

Our new flow-tax system is uniformly applicable to domestic enterprises, FIEs, and foreign enterprises, which is aimed at fair tax burdens to encourage competition, as well as at evolving the mechanisms to perfect tax deductions among enterprises needed for standardizing the value-added tax. On 29 December 1993, the Fifth Session of the Eighth NPC Standing Committee passed the "Resolution on Interim Regulations on Taxes Applicable to FIEs and Foreign Enterprises, Such as Value-Added, Consumption, and Business Taxes," at the same time abolishing the consolidated industrial and commercial tax.

A. Our flow-tax reform priority is to promote a standardized value-added tax. Since China introduced the value-added tax in the early 1980s, objective factors have always limited it to only some manufactured goods, and it has had 12 grades of tax rates. So in practice, it has been subject to problems such as taxable complexity and tax-deduction inaccuracy, keeping it from fully playing its proper role. But our establishment of a socialist market economy system-model made an urgent demand to standardize our value-added tax, as well as creating the necessary conditions. So making value-added tax reform the crux of this tax reform was aimed at, in line with current international practice and under China's existing conditions, establishing a more complete value-added tax collection mechanism, to meet market-economy tax needs. Our reformed value-added tax includes mainly the following items:

1) Our value-added tax-collection range includes production, wholesale, retail, and imported products, as well as manufacture, repairs and replacements.

2) Our value-added tax uses the price-exclusive taxable method, by making prices not including value-added taxes the taxable grounds. In all pre-retail links of the marketing of commodities, invoices must separately indicate value-added taxes and prices not including value-added taxes.

3) Our value-added tax uses the model of a one-grade basic tax rate and a one-grade low tax rate, with the basic tax rate being 17 percent, and the low rate at 13 percent. Except for commodities for which tax regulations stipulate the use of the low tax rate, all other taxable products and labor are subject to the basic tax rate. Export commodities are subject to a zero tax rate, with all taxes being returned once products are declared to customs as exports.

4) We practice a system of tax deduction [withholding] based on the taxes indicated on invoices. China practices a production-type value-added tax, with the taxes on foreign-bought capital-type fixed assets not being

deductible when calculating taxable amount. Foreign-bought farm-product raw materials are provided tax deductions calculated at a 10-percent deduction rate.

5) For small-scale taxpayers whose annual sales income is less than the stipulated amount and whose accounting is not perfect, we practice the simplified method of calculating taxable amount based on sales income and a 6 percent tax-collection rate.

6) Taxpayers calculating value-added tax payments according to the standardized method after reform must conduct a special tax registration, as well as using the special value-added tax invoice, in the interests of strict control.

**B. The consumption tax is a newly designed tax category in the flow-tax system after the industrial and commercial tax system reform.** Based on the general collection of value-added taxes on commodities, our choice of a few consumer goods on which to collect a further consumption tax is mainly to adjust the structure [mix], by guiding consumption, to ensure state revenue. Our current consumption-tax product items are the 11 of tobacco, alcohol, cosmetics, skin and hair care products, expensive jewelry, firecrackers and fireworks, gasoline, diesel oil, motor vehicle tires, motorcycles, and sedans. The consumption tax uses the tax-inclusive price, being paid at the production link. As to tax-system design, consumption-tax revenue is made up of a part of the revenue separated out from the former tax system's product and value-added taxes, being a conversion of revenue from the old to the new tax system, with the collection of consumption taxes on consumer goods basically maintaining the pre-reform tax burden.

**C. The business tax.** The post-reform business tax has nine collection items and three grades of tax rates: the communication and transportation, building construction, post and telecommunications, and culture and sports industries are taxed at a rate of 3 percent; the financial insurance industry, service trades, transfers of invisible assets, and sales of real property are taxed at a rate of 5 percent; the amusement industry is taxed at a rate of 5-20 percent, with details under the control of provincial, autonomous regional, and municipal governments within the limits provided by tax laws and regulations.

#### **Enterprise Income Tax Reform**

Our enterprise income tax reform is generally designed to occur in two steps: A) the consolidation of domestic enterprise income taxes; B) at the appropriate time, the further consolidation of domestic enterprise and FIE income taxes. So this enterprise income tax reform involves mainly domestic enterprises, making no change in FIE and foreign enterprise income taxes.

As to domestic enterprises, since the profit-distribution forms of enterprises of various types of ownership used to differ, the enterprise income tax system that China gradually established had separate tax categories based

on the type of enterprise ownership. This situation of nonuniform tax rates, varying preferences, and interregional policy differences created a jigsaw pattern in the distribution relations between the state and enterprises, which was very nonstandard. State-owned and collective enterprises had a maximum tax rate of 55 percent, which was hard for enterprises to bear, resulting in the formulation of a host of preferential policies, which was hard in turn for the treasury to bear, causing it to take a piece back from enterprises in forms, such as after-tax collection of funds. So our development of a market economy meant that our enterprise income tax reform had to be aimed at adjusting and standardizing the distribution relations between the state and enterprises, to speed up the conversion of enterprise operating forces and achieve fair competition.

The main items of our enterprise income tax reform are:

1. Starting on 1 January 1994, we abolished our separate state, collective, and private enterprise income taxes, to practice a consolidated domestic-enterprise income tax.
2. Domestic enterprise income taxes are at a flat tax rate of 33 percent.
3. We have used the tax law to standardize enterprise income pretax expense-listing items and criteria, changing our customary practice of setting taxable income based on the enterprise financial system, to stabilize and expand the tax base.
4. We have abolished the state-enterprise regulatory tax, and the state energy and communications priority construction funds and budgetary regulation funds paid to the state by state enterprises.
5. We have rescinded our preferential policy allowing state enterprises to repay investment loans before income taxes, establishing a new standardized enterprise loan-repayment system.
6. Since we have consolidated our domestic enterprise income taxes, state enterprises will no longer contract income taxes to the state.

#### **Individual Income Tax Reform**

As China long practiced a low-wage system, we were not equipped with the objective conditions to collect taxes from individual citizens. But since reform and opening, to meet the needs of changing circumstances, China first drew up an individual income tax law, then began to collect regulatory taxes on personal income, setting up an independent income tax for urban and rural individual industrial and commercial household operations. So until this reform, China's tax system for personal income was made up of three separate laws and regulations. This not only was nonstandard legally, but also gradually caused glaring problems, such as too low expense deductions and too high nominal rates. So it was necessary to reform our individual income tax system. Our amended individual income tax law has been in effect since the



beginning of 1994. This was a key step in China's tax reform, aimed at making China's individual income taxes more legal, standard, and rational. This amended tax law regulates mainly high incomes, either not collecting at all or collecting less individual income taxes on middle and low incomes. Observing the principle of not making taxpayer burdens too heavy and lowering the overall burden somewhat, the new individual income tax law applies to Chinese citizens who are obligated by law to pay taxes and foreigners who earn income within China's borders.

Our individual income tax itemizes deductions, rates, and collections. Wage and salary income is taxed at 5-45 percent in a nine-grade progressive tax rate for excess income; individual industrial and commercial household production and operation income and enterprise and institution contract and leasing operation income are taxed at 5-35 percent in a five-grade progressive tax rate for excess income, for roughly the same tax burden as the enterprise income tax; labor and service remuneration is taxed at a 20-percent flat tax rate, with other taxable items also subject to a 20-percent flat tax rate.

According to the international practice of not collecting income taxes on basic cost-of-living expenses, we have set our expense deduction at a uniform standard of 800 RMB, while our new tax law involving foreigners adds a provision on an additional expense deduction, to show suitable concern for foreigners.

As our amended individual income tax has higher expense-deduction standards, with a wider tax range and lower tax rates, the wage and salary income-tax burden is generally lighter.

#### Other Tax-Category Reforms

1. We have improved China's tax system for resource products. Our reformed resource-tax collection-range includes all mineral resources, with the tax categories of crude oil, natural gas, coal, other nonmetallic raw ores, ferrous metal raw ores, nonferrous metal raw ores, and salt. Meanwhile, in coordination with our value-added tax reform, we have appropriately adjusted tax burdens.

Our resource tax uses the tax-calculation method of specific quota by product category, setting taxes in a range with upper and lower limits. For similar resource products with different resource-recovery conditions, taxes also vary.

2. We have begun to collect value-added taxes on land, to appropriately regulate excessive profits from real-estate transactions. The land value-added tax is collected at the real-estate-transaction link on the appreciated part of transaction income. The value added to real estate is the balance of the income earned by taxpayers through selling real estate minus deductions. Deductions include mainly costs paid at the time of obtaining land-use rights, land-development costs and expenses, new housing construction and related-facility costs and expenses, and sales taxes.

Our land value-added tax uses a four-grade progressive tax rate, with the value added to real estate not exceeding 50 percent of deductions at a tax rate of 30 percent; the part exceeding 50 percent up to 100 percent at a tax rate of 40 percent; that from 100-200 percent at a rate of 50 percent; and over 200 percent at a rate of 60 percent.

3. We also need to adjust, by merging or rescinding, our urban construction-safeguard tax, land-use tax, and certain other odd tax categories, while appropriately adjusting tax rates and amounts, and devolving management jurisdiction to lower administrative levels. These tax-category reform plans are in the process of being drawn up, with each going into effect as it matures.

As to these tax-category reforms, the State Council will, based on the resolution of the Eighth NPC Standing Committee, specifically clarify whether they apply to FIEs and foreign enterprises. But I hold that these reformed tax categories ought to apply to FIEs and foreign enterprises. This is in consideration of fair tax burdens, as well as being needed to improve our investment climate.

In the application of our new reformed tax system, as to the range of tax categories applicable to FIEs and foreign enterprises, the Eighth NPC Standing Committee's "Resolution on Interim Regulations for Value-Added, Consumption, and Business Taxes Applicable to FIEs and Foreign Enterprises" provides clearly that: 1) where provided by law, implementation will be according to legal provisions, referring to the enterprise income tax, which will continue to be implemented according to the "PRC Income Tax Law for FIEs and Foreign Enterprises" that took effect on 1 July 1991; 2) where there are no legal provisions, implementation will be according to State Council provisions. The ones that are now clearly applicable are the value-added, consumption, and business taxes. As to the stamp, real estate, motor vehicle and boat use-license, animal-slaughtering, land value-added, and resource taxes, as well as other tax categories that will go into effect, the State Council will soon provide for their applicability.

#### III. Flow-Tax Burdens and Preferences

China's flow-tax system-reform was quite a large adjustment of our macroeconomic distribution system and order. We observed the principles of fairness, neutrality, transparency, and universality; our tax-burden-design guiding ideology was to ensure that reform neither increased enterprise burdens or decreased state revenues, by keeping the overall burden of our former value-added, product, and business taxes. But as our reform had to adjust our former irrational tax structure and distribution order, it was impossible to completely retain our former interests order. Due to factors, such as tax-structure changes, tax-rate simplification and merger, and taxpayment-link reform, it was impossible to avoid changes in the tax burdens on certain industries, enterprises, and products. As to flow taxes for instance, while the tax-burden changes were mostly structural,



leaving the overall enterprise-flow-link tax burden basically the same as before reform, the tax-burden changes for particular products and enterprises were upwards in some cases and downwards in others. This was a step that we had to take to make taxpayer burdens fairer, in order to gradually rationalize our distribution relations.

Since the uniform application of value-added, consumption, and business taxes to FIEs, their tax burdens will undergo some changes. A survey of thousands of typical FIEs in large and midsize cities, such as Beijing, Tianjin, Shanghai, and Guangzhou, shows that most enterprise tax burdens will be the same as before reform, with some slightly lower, and a few others somewhat higher. In order to ensure the continuity and stability of tax policy involving foreigners, safeguard the legitimate interests of foreign firms, and help to open further to the outside world, the Eighth NPC Standing Committee has decided to use appropriate methods to resolve the matter of higher tax burdens on some FIEs. The particular methods are: for all FIEs approved to be set up prior to 31 December 1993, where tax burdens are increased due to our change to collection of value-added, consumption, and business taxes, upon enterprise application and tax-organ approval, and within approved operating terms or where there are no operating terms, with the maximum not to exceed five years, the extra taxes paid due to the increased burden will be returned. But all FIEs approved to be set up after 1 January 1994 will be subject to the provisions of the interim regulations on value-added, consumption, and business taxes.

As to Sino-foreign contractual joint ventures engaged in maritime oil recovery, while they will be subject to the new consolidated tax system, we have decided to tax them according to the former method in consideration of the particular characteristics of this industry. That is, crude and natural gas recovered from oilfields by Sino-foreign contractual joint ventures will be subject to collection of value-added taxes in kind, as well as mining area use fees according to current provisions, but temporarily not resource taxes. The value-added tax rate will be 5 percent, with no deduction of project-beginning taxes when calculating value-added taxes, and no tax rebates granted when oil and natural gas are exported. The independent oilfield operations of the China Maritime Oil Corporation will contrast with these provisions. The State Council will make particular provisions for this, with documents needed for permission at the time of implementation.

The basic principles of this tax reform were that the tax system had to be consolidated, with preferences retained in principle. The FIE and foreign enterprise income tax law put into effect on 1 July 1991 remains unchanged, with its various provided tax preferences also unchanged. Its key provisions involving FIEs are the former flow-tax preferential policies involving foreigners, in five particular areas: 1) Investment-imported capital goods are duty-free, including items in overall investment needed for enterprise production, such as machinery, equipment, and parts, as well as imported

raw materials for production of export products. 2) Designated imported goods are provided tax reductions or exemptions, mainly SEZ FIE imports, and products made by SEZ enterprises for sale within SEZs with, except for mineral oil, tobacco, and alcohol being granted one-half tax reductions, other products being exempt from flow taxes. 3) Bonded areas are granted a preferential flow-tax policy. 4) Export products made by FIEs, except for crude, refined oil, and where there are other state provisions, are exempt from flow taxes. 5) Sino-foreign joint-venture or foreign banks set up with approval in SEZs and the new Pudong Zone are exempt from flow taxes for five years from the day they go into operation. These preferential policies are all retained in principle, with particular consolidation provisions being made by the State Council.

In short, as this tax reform neither increases FIE tax burdens or decreases FIE preferential policies, China's policy of opening to the outside world will be implemented better as reform intensifies.

#### **IV. Along with Tax Reform, We Must Push Ahead Vigorously With Tax Collection-Management Reform**

Equal competition in a market economy means that the state must establish fair and strict market rules. Tax laws are a key part of market rules. A look at all countries throughout the world shows that those with the more developed market economies have stronger tax-law rigidity and sounder tax legal institutions. As this is a universal law, tax reform has to be accompanied by active progress in tax collection-management reform, to build a stronger tax legal system, the key substance of which is: 1) the universal establishment of a taxpayment-declaration system; 2) the active promotion of a tax-agent system; 3) fast progress in the computerization of tax collection-management; 4) the establishment of a rigorous tax-auditing system; 5) the appropriate application of a tax-sharing system, with the organization of two-tiered central and local tax organs; 6) the vigorous building of stronger tax legal institutions, with the gradual establishment of mechanisms for tax legislation, adjudication, and enforcement with mutual independence and restraint.

Once these steps are taken, China's tax administration will have evolved an order of equal emphasis on the four lines of tax policy, taxation, auditing, and reviewed litigation, with mutual coordination and restraint. This will help to thoroughly change our current state of a lax collection-management system and backward collection-management methods, by basically raising our tax-management level, establishing a scientific and strict tax-management system, and ensuring the implementation of our tax laws, in order to speed up our socialist market economy development.

As taxes involving foreigners are a window on reform and opening, strengthening our tax collection-management involving foreigners is of prime importance. In the interests of uniform management, the State

Council has decided that all taxes on FIEs and foreign enterprises, as well as individual income taxes paid by foreigners (overseas Chinese and Hong Kong and Macao compatriots), will be the responsibility of the State Administration of Taxation for collection and management, or the responsibility of the tax departments involving foreigners set up by tax organs at all levels under the jurisdiction of the State Administration of Taxation for classified collection and management. This makes it easy for taxpayers to pay all taxes, while contributing to tax collection-management.

Ladies, gentlemen, and friends, China's current tax reform is an important milestone in China's tax history, an objective requirement for the establishment and development of our new socialist market economy system, and in line with the needs of most FIEs, foreign enterprises, and our friends from all countries. So I believe that China's tax reform will certainly succeed, and that our many friends will certainly understand it fully and support it vigorously. I believe even more strongly that as China's investment climate improves steadily, all people of insight will certainly come to invest in China more eagerly, giving China cooperative partners throughout the world, and even brighter growth prospects.

#### **Article on Implementation of New Financial Reform**

94CE0306A Beijing JINGJI CANKAO BAO in Chinese  
11 Jan 94 p 4

[Article by Cheng Boming (4453 0590 2494) and He Dexu (0149 1795 2485) of the Beijing Securities Registration Corporation and the Finance and Trade Institute of the Chinese Academy of Social Sciences: "Difficulties and Countermeasures in the New Round of Financial Reform"]

#### **[Text] Difficulties in the New Round of Financial Reform**

In China's reform of the financial system, 1993 was a year of strategic change in promoting reform and a year in which theoretical innovation and planning and design were made for a new round of overall reforms. But implementing the new round of financial reforms was by no means easy, still less could it be accomplished in one step. It could be said that after trying and probing for fifteen years, China's financial system reform is now entering a crucial period of storming the fort and meeting strong resistance. All of the situations that reform is facing are deep-rooted, broad-based, and very hard to manage. So, each reform is a hard-fought battle and each step forward can encounter new obstacles and new difficulties.

**The first difficulty:** It is difficult in one step to accomplish central bank macroeconomic control mainly adopting economic methods and establish an improved macroeconomic control system with mainly indirect means. The reason is not only that the constraints and affects of external conditions (such as government interference, enterprise

"resistance" [daobi 0227 6656], and defects in the investment system) cause the central bank to make "ineffective adjustments" and be "powerless to control," but also in the difficulty that the central bank has in transforming its macroeconomic goals and means from the control model under the planned economic system to true market controls in one strike; and even less can the creation of market conditions for implementing indirect controls be accomplished in a day. What is especially worthy of note, is that the pursuit of a sustained high rate of economic growth has a strong impact on the central bank's first goal, "a stable currency."

**The second difficulty:** There are numerous difficulties in establishing a policy bank. This is manifested in that: 1) It is hard to clearly distinguish policy work from business work and we lack a unified standard to measure them. Moreover, this type of standard often is constantly changing with changes in the industrial structure and development of the national economy. 2) It is difficult to appropriately decide on the capital and the day-to-day operating funds needed to set up a policy bank. In the operation it is extremely difficult to accurately give expression to or maintain the specifics of a policy bank. With the slightest inattention, it can be transformed into a second financial or commercial bank. Despite the fact that policy bank loans are clearly supportive in nature, they also are different from financial allocations. They are not free and one-time and they are paid in advance, circulating, and repayable. Also to a certain extent they stress results. As banks policy banks also are different from commercial banks. Despite their emphasis on accounting, profits are not their principal goal and they do not compete with commercial financial organizations.

**The third difficulty:** In developing commercial banks, the burden is heavy and the road is long. Converting Chinese specialized banks to commercial banks is a very long process. We cannot successfully commercialize them by simply issuing a decree. The main reasons are: First, to convert Chinese specialized banks to commercial banks, there must first be clear-cut property rights relations, that is implementation of a stock system. But the restructuring of specialized banks to implement a stock system would be far more complicated and more difficult than the current stock system restructuring of state enterprises. Second, the ratio of bad accounts, messy accounts, serious credit asset losses, and bad assets much higher than international banking standards that Chinese specialized banks have formed over a long period of time also are a major obstacle to their conversion to commercial banks. Third, whether future state commercial banks can thoroughly divorce themselves from the interference of various factors in credit issues and truly act as autonomous businesses still awaits various common efforts. Fourth, what scale is considered appropriate for a future commercial bank to maintain still remains to be resolved. Large-scale commercial banks have numerous network points, wide coverage, and results of scale. But they also can easily become monopolies, stifle competition, and obstruct improvement in

financial services and quality, and they cause commercial banks to lack force as tools of financial innovation. But if commercial banks are too small and too dispersed it also is not helpful to developing the finance industry and playing a financial role.

The fourth difficulty: Standardization and internationalization of the capital market still requires time. Totally marketizing the issuance of bonds, perfecting the grading system for bond-issuing organizations and bond credit, the scale of stock-issuing markets, and a unified stock exchange market (especially, resolving the distinction between the legal person and the individual stock market, distinguishing A-stock and B-stock markets, and the entrance of state stocks into the market) all will require arduous efforts.

#### Countermeasures in the New Round of Financial Reform

Faced with numerous problems in the new round of financial system reform, we should by no means do nothing, and we certainly should not retreat from the difficulties, but we should adopt effective countermeasures. Surmounting difficulties and grasping opportunities will spur on deeper reform of the financial system.

—We should be fully prepared ideologically for the difficulties of the new round of financial system reform.

If financial system reform is to be completely intensified, we must storm the fortifications and run up against tough situations, we must reform and restructure what constitutes support for the old system and what can become important components for the new system, and beginning with deep-rooted aspects and adjustment of authority and benefits, advance overall and break through on key points.

—Clarify the extreme importance of the government in reform of the financial system.

There are two levels of content to financial reform: The first is administrative innovation, also known as government directed financial reform. It is manifested in the government's involvement in the circulation of funds and the implementation of currency policy by clear changes in financial laws and administrative regulations to attain administrative and control goals. Reform of these legal and nonlegal activities launched by governments and governmental organizations aimed at changing the structure of the financial system and expanding currency authority is administrative financial reform. The second is market innovation, that is market-directed financial reform. It is manifested in the emergence of new financial assets, financial tools, and financial techniques on financial markets. From the perspective of the history and the reality of China's financial system reform, we can say with complete reason that delays in financial reform are mainly from lack of financial innovation on the part of government—

administrators. So, it is an urgent matter for the government to take the initiative in participating in financial reform, actively promoting it and energetically advancing it.

—Stress overall coordination in promoting financial system reform. The affects of the new round of financial system reform are wide-ranging and far-reaching. As far as the financial system itself is concerned, reform could intensify the competition of various types of financial organizations and promote overall development of finances and improvement in the level of business administration. At the same time, it will increase the business risks for financial organizations. Increased instability in the financial system makes the task of macromanaging currency even more arduous and complex. As far as external affects of reform of the financial system are concerned, 1) Since the central bank has made currency stability its primary goal and financial deficits can no longer be taken as overdrafts on the central bank, times have not gone well for the Ministry of Finance. If policy banks are established, it will add greatly to the burdens of the Ministry of Finance. 2) After specialized banks are commercialized, the days of enterprises relying on eating from the bank's big pot will be gone forever and losing (or potentially losing) enterprises will have difficulty getting support funds from specialized banks. From another perspective, the affects of financial system reform on these sectors conversely are constraints of these sectors on financial reform. If they are not handled well, they could restrain financial system reform in different respects. So, we should stress overall reforms related to financial system reform. This consists of two aspects: One aspect is that reform within the financial system should be linked up and coordinated. The other aspect is that financial system reform should be coordinated with reform of other aspects (government, planning, finance, investment, enterprises, etc.). If we do not "act as the occasion demands" in these aspects, it will be difficult or even impossible for financial system reform to develop in depth.

—Guard against the financial system reform plan losing its form, changing shape, or becoming distorted. In fifteen years of financial reform, this type of phenomenon has frequently occurred. What was originally a very good reform measure or plan can ultimately lose shape and not attain the mark in the implementation. Not only does it not give rise to the proper effect, on the contrary, it greatly exhibits the opposite effect. So, in the new round of financial system reform, we must put forth an effort to avoid a recurrence of this type of situation and from top to bottom we must heighten our awareness of the implementation of reform measures to ensure that reform plans are all implemented in accordance with predetermined goals.

—Accelerate financial system reform. The arrangement of the overall framework and year of financial system reform has now been essentially clarified, but the



specific steps of implementation still are not clear. Various sectors, especially numerous grass-roots units, are waiting to see. Normal tasks already are affected. If it persists, not only could it affect the development of the finance industry and the national economy, but it also could trigger new contradictions and problems. Moreover, the coexistence of dual systems leading to friction, gaps, and vacuums has caused the cost of reform to reach the limits of tolerance. Increased reform efforts and acceleration of reform have become choices that cannot be delayed in financial system reform.

—Increase understanding of financial system reform and stress the dissemination of financial knowledge. The new round of financial system reform is more than many people (including some high-ranking leading cadres) can accept. For example, people still are not knowledgeable, are not accustomed, or cannot even accept such things as policy banks, commercial banks, and open markets. If there is not widespread understanding of these basic concepts, it would naturally be rather difficult to think about promoting the design of a new system that is based on these concepts. So, increased publicity and dissemination of financial knowledge and increased understanding of financial system reform has become an important part of promoting the new round of financial system reform.

—Handle the relationship between reform and stability carefully and create a relatively relaxed economic environment for financial system reform. Only in this way can financial system reform be conducted smoothly. If the relationship among the various aspects of the economy are bound up very tightly or if serious inflation even occurs, it would not help to promote financial system reform and it could obstruct reform of the overall economic system and development of the national economy.

## INDUSTRY

### GATT Impact on Industry, Prices

94CE0300A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 12, 20 Dec 94 pp 12-20

[Article: "Effect of GATT on China's Industry and Prices"]

[Text] Effect on Country's Overall Price Level

Following China's re-entry into GATT, large amounts of some high quality, low priced foreign goods will surge into China's markets. On the surface, it appears that the price level in China will fall, but because of changes in the import-export mechanism and various other reasons, China's overall price level will not only not fall but possibly rise. Generally speaking, the following several factors will have an effect:

1. The effect of exchange rate changes. Several times since 1985, China has lowered the exchange rate between the renminbi and the United States dollar, but the official exchange rate today still overestimates the value of the renminbi. In addition, with the institution of strict foreign exchange control whereby the renminbi cannot be freely exchanged, the renminbi will be devalued. The reasons are as follows: First, as price reform intensifies and the pace quickens, domestic prices will enter a period of fairly high rise during which the national price index will increase several percentage points each year. Second, with the development of China's commodity economy, the determination of the prices of goods by the laws of value is bound to rupture the existing price system. Tremendous changes will occur that will cause a rise in prices resulting in an absolute decline in the existing monetary value of the renminbi. This will produce a devaluation of the renminbi relative to foreign currencies. Third, as trade protection weakens, imports will increase fairly rapidly in the short term causing an increase in domestic demand for foreign exchange, which will cause a rise in the exchange rate. Thus, the renminbi value of imports will rise. Clearly, a lowering of the renminbi exchange rate will cause a rise in the price index on the one hand, and a rise in the price index will spur a further lowering of the renminbi exchange rate on the other. Therefore, following China's re-entry into GATT, changes in the exchange rate will cause a rise in the domestic price level.

2. The effect of the transfer of international inflation. The meshing of China's economy with the international economy is an objective requirement for China's re-entry to GATT. As a result of foreign trade, foreign debt, and exchange rate devaluation, international inflation can be shifted to China. Conversely, because the renminbi cannot leave China, domestic inflation cannot be shifted to the international economy. Therefore, in the process of opening to the outside world, we will sustain pressure from both domestic inflation and the transfer of international inflation. Because of this double inflation, China's price level is bound to rise.

3. The effect of total supply and demand. Following re-entry into GATT, international factors will have to be added into China's total supply and demand balance. The former balance will be destroyed. On the supply side, numerous foreign products that enjoy marked superiority in quality and price will enter China directly. At the same time, large amounts of some Chinese resources and preliminarily processed raw materials will flow to foreign countries because of their cheap price. On the demand side, as Chinese incomes increase fairly rapidly and restrictions on income soften, the demand for high quality consumer goods (such as motor vehicles) will be virtually unlimited. Because imports of foreign goods are restricted in various ways at the present time, citizen consumption demand is held down by the structural dislocations between supply and demand; thus, supply and demand are in relative balance for the time being. But just as soon as the regulation of imports demolishes

the structural restraints on the supply and demand structure, people's consumption will begin to be stimulated. As a result, current latent demand will become real demand. Moreover, since consumption accounts for two-thirds of total demand, the fairly rapid growth of consumption demand is bound to stimulate growth of total demand, thereby affecting the overall price level.

4. The effect of tariffs. In the course of multilateral negotiations with GATT signatory nations, China promised to reduce tariffs. China believes that a lowering of tariffs will lower prices of imports, thereby lowering the overall price level. A World Bank report believes that China's actual tariff rate is between 5 and 6 percent, which is close to the developed country level and lower than the developing country level. Therefore, following re-entry to GATT, China's actual overall tariff level will not change very much.

#### Effect on Agricultural Product Prices

##### 1) Advantages

The GATT provides favorable conditions for accelerating the opening to the outside world of China's agriculture, and for linking China's agricultural production with the world agricultural products market. It helps introduce new varieties, and new techniques and management experiences to transform traditional agriculture, to promote advances in China's agricultural techniques, and to increase the modernization of China's agriculture. It enables China to enjoy fairly consistent most favored nation treatment, and it expands exports of China's agricultural products, particularly processed agricultural products. China can make full use of the GATT negotiating mechanism to link up with developing countries concerned in opposing the agricultural trade barriers and the export subsidy policies of developed countries in order to safeguard the interests of developing countries. China can make use of foreign experiences and GATT mechanisms to give impetus to thorough reform of agriculture that promotes the smooth transformation of China's agriculture from a planned economy to a socialist market economy.

##### 2) Disadvantages

The lowering of agricultural product tariffs and the reduction of non-tariff production measures means that China's principal agricultural products will face strong quality and price competition from foreign products.

##### 1. Farming

During the past decade, agricultural production costs in China have increased by an average 10 percent per year. Prices of some products are higher than the international market price. Many agricultural products have lost their competitive price advantage. Once China returns to GATT, its farm production—particularly grain production—will face extremely daunting challenges.

##### 2. Animal Husbandry

It is well known that under today's import control system and at today's tariff rates, China's wool production frequently receives a pounding from the international market. In 1984 and in 1988, for example, China-produced wool accumulated in inventory for 2 to 3 years because too much wool was imported. This had an extremely adverse effect on the economic development of border areas and the normal life of peasants and herdsmen. Between 1989 and 1991, the annual per capita income of Inner Mongolian herdsmen was 201 yuan less than in normal years. Following China's re-entry to GATT, if tariff rates are further greatly lowered and license control is abolished, imports will further increase making maintenance of domestic wool production difficult. Milk and dairy products production also face challenges from foreign products. Today, prices of Chinese produced dairy products are higher than the international market price, largely because yields per milk cow are low and costs are high. In China today, 68 percent of all cows are low yield cows that produce 5 tons or less per year. Second, processing scale returns are poor. Most of the country's dairy products processing plants have a fresh milk processing capacity of under 20 tons per day. No scale production capacity has been built, products are undiversified, and the labor productivity rate is low. Among imported dairy products, whole fat milk powder poses a substantial threat.

##### 3. Aquatic Products

Following GATT re-entry, China's aquatic products industry will also face some problems and challenges. One relates to prawns. China is the largest producer and the foremost exporter of prawns. Because of the rise in production costs in recent years, costs now approximate, or are slightly higher than in the prawn producing countries of southeast Asia. If import tariffs are too low, southeast Asian prawns may take over China's markets because their quality is good and sale prices are flexible. Second, once tariffs are lowered, imports of marine fish will increase and prices will fall. This may damage freshwater fish production.

#### Effect on Electronics Industry Products

##### Advantages

1. GATT re-entry will create a domestic and international climate helpful to the development of China's electronics industry and hasten its internationalization.

a. It will help improve the domestic economic environment. In the operation of China's economy today, as formerly, the government controls the economy through the use of command plans and guidance plans. Government control of enterprises behavior is stifling. The role of the market mechanism in regulating enterprises behavior is insufficient. In addition, parochialism in industries and local protectionism split markets that were not intact to begin with the result that market behavior and the market mechanism in China today does not conform to GATT regulations. However, these regulations have been universally accepted by other

countries. In order for China to revive its GATT signatory nation status, it must accept generally acknowledged international norms. This requires that China further intensify economic system reforms, demolish the old control system, and build a new administrative system and new market mechanism that meets the requirements of a socialist market economy. It requires elimination of excessive administrative meddling with enterprise behavior, elimination of local and industrial sector protectionism, full use of the market mechanism, establishment of the proper position of enterprises in the market, and accelerated formation of a nationwide unified market. Only in this way can our enterprises have a fair and competitive environment on which they can rely for their survival and development.

b. China's environment for electronics exports will improve substantially. Following GATT restitution, we can enjoy steady, multilateral most favored nation treatment. We can further free ourselves from the economic control of developed nations. Applicable GATT tariff protection principles may be used to counter the non-tariff barriers that some countries have set up against China's export of electronics products. As the volume of China's electronics exports has increased in recent years, some rampantly protectionist developed countries have invoked anti-dumping controls against China's electronics product exports. Once China re-enters GATT, it will be able to rely on applicable GATT tariff protection principles to counter improper foreign anti-dumping, and anti-subsidy sanctions for a gradual elimination of such discriminatory trade behavior, and avoidance of the unfairness and arbitrariness of unilateral sanctions based on importing countries anti-dumping and anti-subsidy laws. GATT principles of free trade provide that protection of the indigenous industry of all signatory nations is limited to tariffs. Signatory nations have an obligation to abolish import quantity restrictions, import subsidies, and such non-tariff barriers. Thus, the non-tariff barriers of certain countries against China's electronics products will decrease to a certain extent once China re-enters GATT.

2. Full enjoyment of the favored treatment that GATT accords developing countries.

China is still a developing country; thus, it may make full use of GATT exception clauses that pertain to developing countries. It can enjoy the favored treatment that GATT accords developing countries such as greater elasticity in the tariff system of developing countries, permitting subsidies within certain limits, enjoyment of general preferential treatment, etc. These clauses are favorable for China's making the most of its own advantages, for turning its strengths to advantage and avoiding weaknesses, and for expanding exports once it has returned to GATT. Specifically, China's electronics industry can use the tariff system provisions (such as developing countries not making any countervailing

a certain degree of protection for China's fledgling and incompletely competitive industries.

3. Acceleration of the internationalization of China's electronics industry.

GATT re-entry means a meshing of the domestic market with international markets, the domestic market becoming an integral part of the international market. China's electronics industry must orient toward both the domestic and the international market. Macroeconomically speaking, China must put in place an operating mechanism for the transformation of enterprises, effectively control the economy as a whole, improve analysis of the domestic and foreign economic situations, analyze market price prognostications, readjust tax policy, credit policy, income policy, and exchange rate policy in a timely fashion, and maintain general balance between total social supply and demand so that price formation and operation are consistent with economic development. China must use effectively and rationally domestic and foreign sources of materials, become a part of the modern economic development tide of an international division of labor, and join the ranks of international competition. Like it or not, our enterprises have no other choice. They can either seek survival and development through competition, or they can lose and collapse through competition. This international competition provides both motivation and pressure. This is the only way to spur enterprises to transform their operating mechanisms, to improve internal administration, to raise labor productivity rates, to strive to lower product costs, to engage in constant technological transformation, to update technology and develop new products, to actively adjust their product mix, to improve product quality steadily, and to realize the economies of scale. We must master the international market, and actively take part in international competition as the only way to develop our electronics industry.

4. GATT re-entry will permit China to take part in the drawing up of regulations pertaining to international trade; it will help China draw up economic regulations suited to its reform and opening to the outside world, new circumstances, and international practice.

Since we are not yet a GATT member, our specific national circumstances cannot be reflected in GATT international trade regulations. We can only passively accept GATT regulations on international trade. Consequently, China's electronics exports are frequently treated unfairly. They are unfairly restricted, proscribed, and even excluded by numerous non-tariff barriers. Once China's GATT signatory nation status has been restored, we can participate directly in drafting and discussing the GATT regulations that play a major role in international trade. This will enable China to express its intentions and have them made a part of GATT regulations. This will mean that, like other members,



China's participation in GATT will have a definite effect on the drafting and perfection of its laws and regulations pertaining to the economy, trade, and finance and banking. Some new laws and regulations that are in keeping with international practice and norms will have to be drawn up, and existing laws and regulations will have to be further improved to make Chinese economic life a part of the legal system while maintaining China's distinctive socialist market economy.

5. GATT entry will help resolve trade disputes.

GATT is an international body having a mechanism for resolving multilateral trade disputes. It is an authoritative arena for the resolution of international trade arguments. Since China followed a policy of isolation and self-containment for so long, since economic reform and opening to the outside world has taken place only during the past 10-odd years, and since China is not a GATT member, it is still not thoroughly conversant with the trade regulations of some GATT signatory nations. The arguments and disputes of recent years over China's electronics product export trade have usually been attributable to this. This puts China in an unfavorable position for resolving and handling disputes, and thus it has paid an unnecessary price in some cases. However, each year GATT has to deal with many trade disputes. While upholding the just rights and interests of signatory nations, it effectively handles trade disputes verging on conflict from all quarters. Following GATT re-entry, China can place itself under the multilateral trade protection principles that all signatory nations acknowledge. It can avail itself of GATT's dispute resolution mechanism, thereby improving its bargaining position in the resolution of trade disputes among signatory nations. It will be able more effectively to discuss and negotiate solution to disputes with its trading partners using the maintenance of GATT principles as a basis. When necessary, it can fairly resolve issues through GATT's mediation, thereby improving treatment for China's electronics products export trade to safeguard the national interest.

6. GATT re-entry will mean fairly easy access to full information about the world economy and trade.

GATT has information about the world economy and trade. As a signatory nation, China can use this GATT window to obtain documents from which it can gain an understanding of the trade regulations, trade policies, trade statistics, and trends of development in trade of other signatory nations. This will help China decide trade development strategies and draw up rational trade laws and regulations. It will also enhance information exchanges with other countries. For electronics products, in particular, which are updated extremely rapidly and in which competition is extremely intense, timely understanding of international market product trends and market movements holds extremely important significance for China's long-term trade strategy and the setting of near-term goals.

7. GATT participation will further help attract foreign capital, and bring in sophisticated technology and management experience.

Following GATT re-entry, as China's markets mesh with international markets to become an integral part of the international market, our products will be able to leave and enter the international market, and we will be able to acquire some sophisticated technology and sales techniques from foreign countries. In addition, the more roomy domestic market climate will also further attract foreign trader investment and the operation of enterprises in China. Investment in the electronics industry, in particular, will increase, and with it will come fairly sophisticated technology and management experience.

Disadvantages

Recovery of GATT signatory nation status will have a very severe near-term impact on China's electronics markets. Intense competition may put some enterprises in dire straits. Some enterprises that produce low quality, not readily saleable products will lose out in competition, will lose their markets entirely, and will face the prospect of halting production, going out of business, merging, or shifting to other lines of production.

Following GATT re-entry, while enjoying rights as a member, China will also have to perform corresponding duties. As China's electronics products enter international markets, whether we greatly reduce tariffs or provide "market promises" as the "admittance fee" for GATT re-entry, the domestic electronics products market will become an integral part of the international market. Thus, China will lose its "protective umbrella" to stand completely naked in international markets. This will pose a grim test for China's electronics industry.

1. High and new technology industries that are just getting started will face grim challenges, and industries in their infancy will find their development threatened. High and new technology businesses in China's electronics industry are in a nascent stage. They do not have the ability to compete with similar foreign products in terms of product quality, technical performance, or price. We must clearly realize that in their overall level, China's electronics products cannot compete with sophisticated products from the United States, Japan, and Europe. They will even find sales competition with similar products from Asia's "four small dragons" difficult. Unless China's electronics industry is properly protected, foreign goods will overwhelm its electronics products markets facing China's industrial enterprises will a further predicament.

2. Many years of narrow sectarianism and local protectionism, failure to keep in mind the nation's overall interests, and much mindless redundant imports and construction have produced two consequences: One is the waste of a large amount of money, materials, and manpower; and the other is that excess production capacity for the same items resulted in none of the

enterprises producing the same product being able to keep fully employed. Thus, they could not realize the economies of scale, found it difficult to hold down costs, and were unable to fashion a certain amount of international competitiveness. If premium quality, low priced foreign goods come flooding in on top of this, without government protection, some enterprises producing low quality products will face the danger of being eliminated when faced with the onslaught of foreign products because their technology is antiquated, the management is inept, their product quality is poor, and their economic returns are low.

3. Electronics products, which cannot compete on price and quality, will lose the protection they now enjoy when the domestic market is opened up. They face the danger of being wiped out. For a long time, China has accorded both tariff and non-tariff protection to electronics products. This kept out imports to protect markets. At the same time, however, it protected backward industries and obstructed competition. Ultimately this caused a loss of both money and human resources. Some low technology, poor quality enterprises had to rely on a distorted market price system. They depended on the government's protective umbrella for their survival. Even so, some enterprises still showed a loss. However, some technologically strong and well-run enterprises, and some enterprises whose product quality and prices were superior could not update their equipment because of unfair market competition, and government policies that penalized frontrunners. They lacked sufficient reserve strength, and thus could not become strongly competitive.

#### The Effect on the Textile Industry

GATT re-entry will open opportunities for the textile industry.

1. The international climate for textile product exports will improve.

International competition in textiles is currently very intense. Trade protectionism by all countries is very severe. Currently, China's foreign trade is conducted through bilateral negotiations. Since textile exports are frequently limited by various tariff and non-tariff barriers in developed countries, China's exports are at a competitive disadvantage internationally. For example, the United States pressures China with most favored nation treatment, and it employs the "301" provisions to retaliate against China's textile exports. Following GATT restoration, in principle, China will unconditionally enjoy most favored nation treatment. All trade barriers will be greatly reduced; trade among signatory nations will become freer; and the international climate for China's textile exports will improve.

2. GATT re-entry will set the stage for textiles to open new markets.

Most of China's textile exports today go to Hong Kong, Japan, the EC and the United States. Exports to these

countries and territories account for the lion's share of all of China's textile exports. Relatively speaking, future potential is not very great for the expansion of textile product exports in these main sales markets. United States Department of Commerce Statistics show that China has become the largest supplier of textiles to the United States, accounting for 13.9 percent of the total. It ranks second in money terms at 12.6 percent. In 1990, China ranked third as a supplier of textiles to the EC. Therefore, expansion of China's textile exports will require great efforts to open markets in other countries and territories. GATT re-entry provides the possibility of opening a new, more diversified, multilateral trade pattern for China's textiles.

3. Portion of China's textile exports may increase.

During the period of transition from the Multi-Fiber Arrangement [MFA] to GATT integration, the accompanying quotas on kinds and percentages will be gradually abolished, and surplus textile allocations will gradually increase. The year-by-year percentage increase in allocations according to provisions of the new agreement will be 16 percent between 1993 and 1995, 25 percent between 1996 and 1999, and 27 percent between 2000 and 2002. At this rate, the actual allocation will increase 1.3-fold within 10 years. Thus, following GATT re-entry, China should enjoy the benefit of a gradual increase in its textile and clothing quota. It must be noted that this is a theoretically calculated rate of increase. Numerous factors affect export growth, and they must be completely analyzed to make a scientific prediction. Actual quota increase can also only be obtained through intense market competition.

In addition, the new agreement also provides for integration of 12 percent of textile imports between 1993 and 1995, integration of 17 percent between 1996 and 1999, and integration of 18 percent between 2000 and 2002. China may compete equally with other signatory nations in the integrated textiles and clothing trade. This will also provide China an opportunity to expand textile exports.

4. The 10-year MFA transition period provides conditions for readjustment of China's textile industry and wins time for technological transformation.

During the textiles and clothing export trade integration process, fierce competition will occur in the world textile market. The key to successful competition lies in the technological transformation of the textile industry. Ability to apply high technology to the production of high quality, high grade, high added value products is decisive in competing successfully. At the present time, the technological level of China's textile industry lags far behind that of developed countries and territories. Top priority matters include transformation of enterprises' operating mechanisms, orienting toward domestic and international markets, readjusting the industrial structure and the product mix, spurring technical progress, and accelerating technological transformation. However,

these things require a process of development. The MFA to GATT 10 year transition period provides conditions for China's textile industry to adjust and gain time for transformation.

The above opportunities are premised on solution to GATT re-entry problems. Since the developed countries of Europe and America insist that the Uruguay round (including textiles and clothing) is a total agreement, only GATT signatory nations having the right to take part in textile and clothing transitional plans, this means that this plan applies only to signatory nations within GATT. Currently, 116 countries and territories are full participants in the Uruguay round of multilateral trade negotiations. China is one of them. Once China rejoins GATT, it will automatically enjoy the rights stipulated in the Uruguay round of negotiations, and it will also be responsible for discharging attendant obligations. Unless China is able to achieve restoration of its signatory status before conclusion of the Uruguay round of negotiations, China's textile and clothing exports will continue to be limited to what can be accomplished through bilateral negotiations. They will be limited by quotas. China has already expressed willingness to sign the complete Uruguay round accord. It is hoped that the negotiations will conclude shortly in order to promote growth of the world economy and trade. This also explains the necessity and urgency for China's GATT re-entry.

Of course, immediately following GATT re-entry, especially within a short period, China will have to gradually eliminate import licensing and substantially reduce tariffs; however, poorly competitive businesses and firms in the textile industry will face substantial pressures and threats. The main such trades are as follows:

1. China began to build its chemical fiber industries during the 1960s. Thanks to more than 30 years development, a complete range of such industries has been fashioned. Some fairly large size industries exist. In 1991, China ranked third in the world in chemical fiber production capacity. Conspicuous problems today are the small scale of China's chemical fiber industry, scattered plant sites, numerous production links, many tax rates, fairly antiquated equipment, low labor productivity rates, fairly high costs, not very high product grades, numerous ordinary products, few products meeting special specifications, prices that are higher than in international markets, and lack of competitiveness. Following China's GATT re-entry, the first textile industry to be hurt will be the chemical fiber industry. With the elimination of licenses and the lowering of tariffs, polyester producing enterprises will face losses, the returns of dacron short fiber enterprises will decline further, and new polyester and acrylic fiber plants will be hard hit.

2. Long chemical fiber textiles. During the past several years, China has developed the production of silk-like chemical fiber textiles on a large scale, but in 1991, large amounts of silk-like chemical fiber textiles were still being imported because China could not compete with

foreign products on variety or quality, and particularly on price. Once China re-enters GATT, this kind of silk-like chemical fiber will be even harder hit.

3. China's dyeing industry today is not of a proper scale or composition, varieties are few, lots are large, quality and grade are not high, and returns are poor. It does not meet international needs for "small lots, many varieties, and quick delivery." Currently, China's self-sufficiency rate in export clothing lining is fairly low, and the quantity and quality of high grade sanforized products cannot meet domestic clothing industry demand. Much must still be imported. When tariffs are lowered and markets are opened following GATT re-entry, foreign textiles and clothing will enter the domestic consumer market at once. China's dyeing industry will face intense competition and a serious pounding.

#### Effect on Iron and Steel Product Prices

1. The price formation mechanism. After 15 years of reform, China's iron and steel products price control system has changed. Enterprises rather than the state now set prices. This is basically consistent with the market pricing mechanism that GATT requires. However, China's iron and steel products price formation system differs in certain ways from the market system that western countries practice.
2. The iron and steel product price level. Overall, because they are currently pulled by demand, prices of iron and steel products in China are the same or greater than the international market price. For example, the domestic market price for popular goods such as wire rods and steel plate is greater than the international market FOB price. For a time, it was greater than the delivered cost of imported steel. Consequently, since 1993 large quantities of processed steel and scrap steel have been imported.

The effect of GATT re-entry on China's steel products price levels will be as follows: 1. It will restrict domestic finished steel market price levels, thereby causing a slide in the price of finished steel products that exceed the delivered cost. Second, most Chinese-produced iron and steel products are less diversified and of poorer quality than the same kinds of products on the international market. This means that, generally speaking, prices of Chinese-produced iron and steel products will be lower than prices of imports.

In addition, following GATT re-entry, prices of production elements such as railroad transportation, electric power and coal will rise substantially, thereby increasing iron and steel product production costs. This will affect the overall price level of iron and steel products, and the price structure between different products.

#### Effect on Cement Prices

Analysis of the effect of GATT re-entry on cement prices in China, and study of remedies that may be taken requires, first of all, a clarification of the advantages and shortcomings of China's cement industry in a free market. Advantages and disadvantages are comparative. Thus,



one cannot generalize. One must make accurate comparisons. Many trades study the effect on domestic industry of GATT re-entry by comparing China's advantages and disadvantages in comparison with their main competitors, the developed nations of Europe and America. Such comparisons are correct, no doubt, but we feel that Chinese cement cannot be compared with cement in Europe and America. This is because many years practice show that we import very little cement from Europe and America, and we will not import much in the future. China exports very little cement to either Europe or the United States today, but the amount may increase in the future. However, a long development process will be required. The Chinese cement industry's main foreign trade competitors are Japan, North Korea, South Korea, Indonesia, Thailand, Malaysia, and Singapore. Our main comparative advantages over these countries and territories are as follows:

1) Manpower advantage. China's wage level is only one-tenth or less of theirs. The cement industry is a labor and capital intensive industry. To a very large extent, the cost of labor decides product competitiveness. Rise in the price of a nation's labor cannot arbitrarily exceed the overall level of its economic development. Therefore, the manpower advantage that China's cement industry enjoy is not just for the present, but will continue for a very long time.

2) Energy and raw materials advantage. The cement industry is a high energy consumption industry, and it requires large amounts of non-metallic raw materials such as limestone. By comparison with competitors, China has plentiful reserves of energy, particularly coal, and raw materials such as limestone, which are found over a wide area. China is richly endowed by nature, and prices are relatively cheap.

3) Environmental protection pressures are relatively slight. Since the cement industry is a traditional industry that pollutes the environment to a certain extent and whose technology content is fairly low, during the 1980s, some developed countries and territories began to limit its development or relocation. For example, Japan and Singapore adopted such measures. Relatively speaking, pressures in these regards are not great in China.

4) Transportation and sales advantage. The cement trade is strongly dependent on transportation. Cement must be marketed within a certain radius. Currently, some competitors are able to compete with us in sea transportation; thus, they have entered some coastal areas. However, they will find it difficult to compete with domestic firms in shipping cement long distances into vast inland markets.

Relatively speaking, China's cement industry is at a disadvantage in the following respects:

1) The general level of production technology is not high. Most Chinese cement concerns are medium and small enterprises most of whose equipment is antiquated and whose technical strength is weak. Consequently, they lag

behind foreign countries in product quality, variety, and resources utilization. In particular, the variety and character of the cement they produce lacks diversity. It does not meet the construction industry's development needs.

2) Plant size is relatively small. Only one in 100 plants are of large or medium size. This percentage is far lower than for Japan and South Korea, and even lower than for Indonesia and Thailand. Failure to increase the benefits of scale is bound to increase difficulties in lowering costs.

3) A not entirely rational dispersal of the industry, and poorly developed transportation means that cement is in short supply in some coastal areas where much cement is used, while supply is greater than demand in inland areas. This affords opportunities for imported cement.

4) Psychological effect. Chinese prefer foreign goods not just for technological or quality reasons, but for psychological reasons as well. In Guangdong and Fujian provinces, the demand of capital construction projects for cement has increased in recent years, but some projects would rather use high priced imported cement than low priced inland China cement. One important reason for this is greater confidence about the quality of imported cement and that contracts will be honored.

Ultimately, all of the foregoing factors are reflected in price. In accordance with the principles of free trade that GATT follows, following GATT re-entry domestic and foreign firms will compete on equal conditions. Survival of the fittest will depend on quality, price, and sales service. China's advantage in future development lies in price, which it will continue to maintain. Its disadvantage lies in development problems, which efforts are being made to solve. Therefore, prospects are fairly optimistic.

#### Effect on Export Prices

Following GATT re-entry, China's commodity export trade climate will improve greatly. Applicable GATT provisions will provide forable conditions and effective protection for China's exports. They will provide China vast export opportunities manifested in the following specific ways:

1. Following GATT re-entry, in accordance with the most favored nation treatment provisions and the general preference system principles, China will enjoy tremendous tariff concessions from GATT member states. During the past more than 40 years, all member nations have conducted tariff concession discussions under GATT auspices, the tariff level of developed nations falling from 50 to 4.7 percent. The tariff level of developing countries has also fallen commensurately to 13.5 percent. Once China is a GATT member, more of its export commodities will enjoy preferential tariffs to a greater degree, and no longer will there be general tariffs. There is a wide gap between preferential tariff rates and general tariff rates; thus, this will greatly increase the price competitiveness of China's exports. This will mean that China's low cost and low price advantages can be

more fully exploited. It will also lower export costs, improve export returns, and stimulate export growth, providing opportunities for exports that could not otherwise be exported because of overly high tariffs. This will enable more of China's goods to enter international markets.

2. Following GATT re-entry, China will receive most favored nation treatment from more countries and territories. Thus, its export channels will increase, and its export area will expand. At present, China's export area is relatively concentrated. Only 21 countries and territories provide general preference system treatment to China. Once China has re-entered GATT, we can use the GATT negotiating arena to conduct wideranging talks and negotiations with nearly 100 GATT member nations. We can use GATT's most favored nation treatment provisions and general preference system principles to obtain most favored nation treatment from more countries and territories. Thus, our goods can be exported to more countries and regions. Widening of the market will permit greater latitude in setting prices of China's exports. We will be able to chose markets over a wider area that will accept higher priced exports.

3. Consultation, mediation, and resolution of disputes are the basic tasks of GATT. After restitution of China's signatory nation status, with the help of GATT's mediation mechanism, China will be able to use international law as a basis for impartial resolution of trade disputes, the elimination of prejudice against China's exports, and improvement of China's position in trade negotiations. In recent years, some western nations have used the low prices of China's exports as a pretext for leveling dumping charges. They have instituted "anti-dumping investigations" and levied anti-dumping sales taxes that have caused great losses for China's export trade. Once China's GATT status has been restored, it will be able to refer such unreasonable charges to GATT for equitable resolution in accordance with prescribed procedures. This will ensure the development of China's foreign trade exports and safeguard China's economic trade interests.

4. Following GATT re-entry, China can use GATT's information system to obtain more international trade information and intelligence. In addition, it can engage in bilateral exchanges with other GATT signatories for an expansion of economic information sources and channels. Thus, China will be able to more frequently, more quickly, and more completely understand international market development trends, particularly international market price information. It will be able to scientifically determine kinds of exports and export price levels, and to rationally formulate export policy and make price competition decisions.

Recovery of its GATT seat will provide China's foreign trade exports excellent opportunities, but it will also pose stricter requirements. We will have to abide strictly by international regulations in export practice, and strictly enforce the provisions of GATT articles. Of all the

GATT provisions, the ones that have the greatest effect on exports are the "dumping and anti-dumping" and the "subsidy and anti-subsidy" provisions.

Dumping is a form of unfair competition. GATT has provisions forbidding dumping, and it holds that an anti-dumping sales tax of a certain amount may be levied on dumped goods. Anti-dumping has a direct effect on the prices of China's exports. On the one hand, because of the strict provisions, once China has re-entered GATT, it will protest our legal rights and regular exports. It will prevent unreasonable accusations against China's dumping of goods. On the other hand, it will require that China's exports be handled strictly according to international standards. When setting export prices, we will have to be scientific and reasonable. When a low price is used to compete, a limit must be set. The price cannot be lower than normal value (i.e. a price comparable to the one for the same product consumed in the home country under normal circumstances, or the highest comparable price for the same product exported to a third country under normal trading circumstances, or the production cost plus a reasonable sales expense and profit in the home country). Since reform and opening to the outside world, China has frequently been accused of dumping by western countries. This has occasioned very great losses for China's export trade. This sounds a warning for China's exports following GATT re-entry. If an anti-dumping sales tax is levied, this will not be just a matter of loss or gain from buying and selling but may well result in the community being blocked from future exports of that product, which would seriously damage the development of China's exports.

**Machine, Electronics Industries Advance**  
94CE0286B Beijing JIDIAN RIBAO in Chinese  
8 Jan 94 p 2

[Article by Correspondents Yang Wenyan (2799 2429 0337) and Xiang Xu (0686 2485): "Exports of Machinery and Electronics Products Saw Sustained Growth During 1993. Key To Further Advance Lies in New Actions Says Ge Hui (2047 6540), the Officer in Charge of the National Machinery and Electronics Products Export Office, in Response to Correspondents' Questions"]

[Text] National Machinery and Electronics Product Export Office officer Ge Hui recently said in response to correspondents questions about the country's exports of machinery and electronics products during 1993 that exports of these products totaled \$22.5 billion, up 13 percent from the previous year. He added, however, that the key to further advance lay in new approaches and new actions.

In reviewing the golden age of machinery and electronics product exports from 1986 to 1992, Ge Hui told the correspondents that thanks to the enormous growth during this seven-year period, the country's foreign

exchange earnings from machinery and electronics products exports shot up from \$1.62 billion yuan in 1985 to \$19.55 billion in 1992, an average annual 42 percent rise. China's exports of machinery and electronics products also increased from 0.3 to 1.3 percent of world trade in machinery and electronics products. Exports of machinery and electronics products also rose from 6.1 to 23 percent of the country's foreign trade exports, machinery and electronics products now ranking second after textiles (including clothing) among the country's exports.

While evaluating the overall trend of development of China's exports of machinery and electronics products in 1993, Ge Hui stressed the need to look at them in the following two ways: First, machinery and electronics product exports continue to rise between 5 and 6 percentage points relative to foreign trade exports. Second, the 13 percent increase in machinery and electronics product exports during 1993 is far lower than the 40 percent of the previous year. After seven years of high speed growth of machinery and electronics product exports, hidden worries about insufficient export strength have begun to set in again.

What are the reasons? Ge Hui believes there are five reasons:

**First is the impact of the overall climate.** During 1993 the domestic market made a good showing. Demand was very brisk for commodities of an investment nature, such as machinery and electronics products for direct use in capital construction. This intensified the strain between the international market and the domestic market.

**Second, too brisk domestic demand caused excessive rise in the prices of raw and processed materials such as steel.** This led, in turn, to a rise in foreign trade enterprises' export costs, which impaired exporting firms returns from exports and increased export business difficulties. In addition was the good domestic market prices of machinery and electronics goods. The problem of returns from export sales not being as good as those from domestic sales became more glaring. Many production firms put greater emphasis on domestic market sales.

**Third was further intensification of foreign trading firms' funds shortage.** During 1992 and the first half of 1993, the country's financial order was somewhat chaotic. Bank discounting of loans in violation of regulations was rampant. This also meant that the banks could not fully ensure a supply of funds for foreign trade enterprises. Some foreign trade corporations and industrial and trading corporations also tied up fairly large amounts of money in real estate and stock speculation.

**Fourth, failure of state agencies concerned to enforce foreign trade export business policies also directly impaired the zeal of large numbers of export business.** Examples include inability to offset renminbi payments when paying foreign exchange to the government, burdensome export tax rebate procedures, and inability to

get tax rebates promptly. Of course, the situation improved following rectification of financial procedures and greater macroeconomic regulation and control during the last half of 1993.

**Fifth, the export mechanism shows no formation as yet of a mechanism whereby enterprises can make their own business decisions, be responsible for their own profits and losses, restrain themselves, develop themselves, and expand exports as they like.** New problems also occurred in the course of reform. Some foreign trade corporations unilaterally construed the "primarily one business but running multiple businesses" that state policy permitted to mean making money mostly inside the country. They did not put much effort into the fundamental task of earning foreign exchange for the country. During 1993, a substantial number of foreign trading corporations and industrial and trading corporations showed zero or negative increase in exports.

Ge Hui said that after an analysis and validation by units and locations concerned based on actual circumstances in China and the trend of world economic development at the All-China Machinery and Electronics Products Export Work Conference held in early 1993, a three stage development goal was set for China's machinery and electronics products exports: This was to export approximately \$30 billion worth of machinery and electronics products by 1995 by meeting two years ahead of schedule the State Council proposed \$20 billion export goal by the end of the Eighth Five-Year Plan; exporting approximately \$60 billion worth by 2000, machinery and electronics products thereby becoming China's first major category of exports; and exporting approximately \$150 million worth in approximately 15 years beginning now.

Ge Hui emphasized that attainment of this magnificent goal will require new approaches and new actions. He discussed this issue from several angles.

**First is the export products question.** Vigorous efforts must be made to adjust the export product mix, truly creating a number of primary export products such as complete factories, ships, motor vehicles, and electronic products. If these products are to become the country's dominant exports, China will have to formulate corresponding industrial policies, draw up concrete methods, increase investment, speed up technological transformation, improve its product development capabilities, raise the level of its technology, and improve testing.

**Second is the export market question.** Today, international markets are the weakest link in the expansion of machinery and electronics products exports. The urgent task of the moment is further improvement of ability to open up international markets. This means both focusing on the opening of important markets that have a large capacity, and simultaneously paying attention to places that have market potential (such as Latin America, the Middle East, and Africa), doing all possible to create conditions to enter these areas. This is the only



way of forming an all-points, diversified market pattern to reduce export risks. Henceforth, we will have to fashion a composite force made up of designated foreign trade corporations, production firms that do their own exporting, and foreign owned concerns for joint opening of international markets. We must gradually build a number of primarily industrial or primarily trade export enterprise blocs to pursue a course of greater internationalization, greater industrialization, and greater commercialization.

**Next is the trading methods question.** Trading methods must be more flexible. We must further develop the importation of materials for processing and re-export and develop OEM methods, i.e., use the manufacturing techniques, blueprints and materials of foreign firms to manufacture products bearing the trademarks of foreign firms, and using foreign firm commercial channels to sell them in international markets. We must operate joint ventures or produce and design in cooperation with foreign firms, investing in the operation of plants abroad to develop CKD and SKD assembled exports to expand exports of machinery and electronics products.

With the steady intensification of our foreign trade system reforms, the domestic market will gradually dovetail with the international market. Some methods used in China that are not in keeping with international practice will gradually weaken. Ge Hui emphasized that the role of finance and banking in supporting exports will become increasingly important. He believes that the state should intensify financial support for machinery and electronics products exports. While ensuring the short term operating funds needed to expand exports, the state should more greatly increase intermediate and long term export credit, grant preferential credit interest rates for sellers, and support exports of large and complete plants and equipment, as well as aircraft, and ships. Formation of a Chinese import-export bank should be accelerated. We should learn from the experiences of Japan and South Korea in export and import banks support for the export of complete plants. Once China has founded an export-import bank, it should assume the credit risks that ordinary commercial banks do not want to assume or are unable to assume, preferential credit being used to increase the competitiveness of China's machinery and electronics products in international markets.

Ge Hui said that the gradual intensification of reform should bring about the quickest possible formation of a mechanism whereby enterprises are responsible for their own operation, for their own profits and losses, for limiting themselves, for developing themselves, and for expanding exports. Truly effective policy measures should be formulated to arouse the interest of exporting enterprises in expanding exports. Ge Hui also especially emphasized the need to make the most of the role of the coordinated guidance and consulting services that the Machinery and Electronics Product Export Chamber of Commerce provides in building a regular export order. As government's function changes, not only will the

Chamber of Commerce coordinate export prices, customers, and markets, but export quota assignments and preliminary examination of export licenses will gradually come to be handled by the Chamber of Commerce. The Chamber of Commerce must substantially improve its organizational structure to meet the needs of deepening reform. He said that a "Foreign Trade Law," and "Regulations for Punishing Sales of Exports at Low Prices" must be drawn up as quickly as possible, legal methods use to prevent a chaotic situation. Punishments must be particularly emphasized, violations of the law dealt with according to law, severe punishments meted out depending on the seriousness of the offense, and for causing severe economic losses for the country.

Reportedly, acting in the spirit of State Council structural reforms, a National Machinery and Electronics Products Import-Export Office organized from the merger of the former State Council Machinery and Electronics Products Export Office and the State Council Machinery and Electronics Equipment Import Coordination Office is to become the functional unit of the National Economics and Trade Commission. Ge Hui said that the new organization will formulate support policies as reform steadily intensifies. Just as in the past, it will be in charge of needed macroeconomic regulation and control measures to move ahead and spur healthy development of the machinery and electronics products import-export trade.

The CPC Central Committee's listing of the machinery and electronics industry as a principal industry in the national economy has greatly encouraged the millions of staff members and workers on the machinery front. "Close involvement in reform, hastening development, vigorous development, and making the most of the national economy's dominant role," have become action slogans for stimulating an all-out effort throughout the industry. The development program for invigorating the machinery industry that the Ministry of Machinery has drawn up has been revised many times and will soon appear.

Human talent is the keystone in dominant industries. One important aspect of the invigoration of the machinery industry is good management and good use of all kinds of specialists and technical talent to improve the caliber of the rank and file throughout the industry.

Survey data show that as education, the economy, and science and technology develop, and as society and enterprises increasingly respect science and technology as well as scientific and technical talent, the speed of growth of technicians in the machinery system has been markedly higher than the total number of staff members and workers. Statistics from 10 dominant enterprises show an 8.6 percent increase in the total number of staff members and workers between 1988 and 1991, but a 20.8 percent increase in the number of technicians. At the same time, the caliber of technicians as a whole has also risen markedly, and the percentage of graduate students, and college undergraduates has increased by

varying degrees. An environment of respect for human talent, respect for knowledge, and respect for contributions is gradually taking shape.

However, by comparison with needs in invigorating the machinery industry, numerous problems in need of immediate solution continue in the training and use of human talent.

#### **Human Talent Utilization Efficiency Not High**

A questionnaire survey of 201 scientific and technical personnel shows that only 5.5 percent of scientific and technical personnel in the machinery and electronics industry personnel feel that their skills are being used to the full; 39.8 percent feel they largely apply their talents; and 17.4 percent believe their talents are not being used at all. In another survey of engineers in large and medium size enterprises, 72 percent felt they were being held back, 80 percent felt work unsatisfying, and only 5 percent put in overtime. Such a slack and easy going state of affairs naturally creates not very high work efficiency. Some comparative data for 1988 is shocking. In Japan, per capita gross output value of engineers in the machinery industry was \$350,000, while it was only \$84,000 in China. This is to say that in machinery industries having the same output value, China used 4.1 times the number of engineers as Japan.

There are both structural reasons and conceptual reasons for this state of affairs. Examples include out of date products, antiquated organizational methods, softening of demand for technology and for technical personnel, and being accustomed to the expansion of extensive inputs primarily, using large amounts of money and manpower; and a serious shortage of development funds that leads to having a large number of technical personnel in name but not in reality, which makes the development of new products very difficult, and makes it even harder to translate scientific research achievements into production. (The money provided for technical progress in some developed nations generally runs between 3 and 5 percent of total sales. In strong Japanese enterprises, it runs as high as 10 percent. In China, by contrast, many enterprises invest less than 1 percent.) A Shanghai survey shows 70 percent of new research achievements have not been translated into the development of products. The value of knowledge is not fully appreciated. Many enterprises continue to treat scientific and technical personnel like organizational cadres, their average bonus being between 10 and 30 percent less than workers on the front line of production. Egalitarianism in distributions is a serious problem. "It makes no difference whether one works or does not work," or whether one "does not work and also takes few risks." This situation results in scientific and technical personnel not doing their best; production efficiency in the enterprise itself is not high; and overstaffing is the general rule, etc.

#### **Serious Flight of Human Talent**

Surveys show that despite the increase in technicians in the machinery and electronics industry in recent years, in state-owned enterprises—particularly in large- and medium-sized enterprises—the dropping out of skilled personnel, the aging of human talent, and the flight of human talent is extremely serious. It is mostly middle age and young permanent scientific and technical cadres that leave. A sample survey showed a decline from 24.6 to 19.28 percent in the number of scientific and technical personnel between the ages of 30 and 40 between 1986 and 1991. Another survey showed the flight of more than one-third of the young scientific and technical personnel during the past five years from large- and medium-size machinery and electronics enterprises. More than 60 of the best graduates of institutions of higher education assigned to the Dalian Municipal Machinery Bureau were snapped up by the three kinds of partially or wholly foreign-owned enterprises. Between 1984 and 1990, 4000 university graduates were assigned to a Beijing machine tool plant. More than half have already left. The problem in frontier regions is particularly serious. Survey statistics from 287 enterprises show only 7.92 percent of technicians in enterprises today are between 31 and 35 years of age, and 14.5 percent are between 26 and 30 years old. The flight of human talent not only weakens enterprises technical strength, but also damages continuity. It tends to create a vicious cycle.

The main reasons for the flight and dropping out of human talent are that large- and medium-sized state-owned enterprises are in the least favorable position in the intense competition for human talent. They cannot compete with the three kinds of partially or wholly foreign-owned enterprises, or with township and town enterprises, in earnings. In the probability of making a name for oneself and opportunities to travel abroad, state-owned enterprises cannot compete with educational and scientific research units. In housing, working conditions, and a feeling of being respected, state-owned enterprises cannot compete with administrative institutions. In work freedom, work environment, and income, state-owned enterprises cannot compete with companies of all kinds. Yet another important reason for the flight of human talent is that technicians can more easily put their talents to use in the three kinds of partially or wholly foreign-owned enterprises, and in township and town enterprises, unlike in some large- and medium-sized state-owned enterprises where seniority and age play a role, and where people are not used to the full. This corrodes people's spirit and enthusiasm.

#### **Accelerate Building of a Human Talent Corps**

Informed people believe that the priority task in invigorating the machinery industry is accelerating the creation of a high caliber specialist corps that combines ability and political integrity, and that is sensibly composed. The human talent strategy that the Ministry of Machinery espouses is "maintenance of continuity in the corps, optimization of the make-up, improvement of

caliber, and speedy selection for promotion and training of middle agent and young permanent technical cadres and academic leaders so that new technical personnel will be available to replace old technical personnel over the next 10 years. It wants to build a technician corps of good political quality, that has fine professional skills, whose make-up is rational, that is highly trained, and that is imbued with vitality to meet the needs of reform and opening to the outside world, scientific and technical competition, and social development."

The specific measures that the Ministry of Machinery has proposed to attain this strategic goal are the founding of a human talent bank, including the establishment first of a high level specialized talent bank, accelerated training of three-in-one talent (technology, management, and sales), and four-in-one talent (technology, management, sales, and foreign language); founding of a human talent exchange center, improvement of enterprises competitiveness, using fair competition as a basis for accurately guiding rational exchanges of human talent; formulation of preferential policies for the importation of scientific and technical management talent; founding a rewards system, increasing investment in education, etc. In short, "human talent engineering" is imminent.

## FOREIGN TRADE, INVESTMENT

### Foreign Firm Mergers, Acquisitions Discussed

94CE0292A Beijing GUOJI SHANGBAO in Chinese  
15 Jan 94 p 2

[Article by Wang Zuoyi (3769 5679 5030): "Enterprise Mergers and Acquisitions as Tool of Foreign Trade Reform"]

[Text] Mergers and acquisitions involving foreign trade enterprises and industrial enterprises have been attracting enormous interest in all quarters of society since last year. Enterprise mergers and acquisitions are a means of foreign trade reform and a key instrument of accelerating the development of a socialist market economy by combining the transfer of ownership rights with the optimization of resource allocation. Last June, for instance, China Metals Import and Export Corporation merged with the Siping City Tungsten Molybdenum Materials Company and in November China Chemical Industrial Import and Export Corporation merged with the Siping City United Chemical Industrial Works and Siping City Pharmaceutical Company. Earlier in January last year, Ningxia Metals Import and Export Corporation acquired Yinchuan Calcium Carbide Factory. Reportedly a number of foreign trade enterprises are actively considering and making plans to merge with or acquire industrial enterprises.

#### I

Enterprise mergers and acquisitions are governed by the "Regulations on Changing the Operating Mechanism of Industrial Enterprises Owned by the Whole People."

Under Article 16, for example, "Enterprises may acquire other enterprises in accordance with the principle of voluntary participation and compensation. The transaction shall be reported to the government department in charge for record purposes." Article 34 says, "The government may decide that one enterprise shall merge with another or approve such a merger. In either case, provided the enterprises in question are owned by the whole people, the properties may be transferred without compensation. A merger plan shall be put forward by the government department in charge or by the enterprises. A merger agreement shall be drawn up under the auspices of the government department in charge and after full deliberations by all parties involved. The creditor's rights and liabilities of the original enterprises shall be assumed by the enterprise created by the merger." "An enterprise may acquire other enterprises on its own initiative. Acquisition is a form of merger with compensation. Enterprise acquisitions must be approved by the government department in charge. The creditor's rights and liabilities of the acquired enterprise shall be assumed by the enterprise that has acquired it." When a foreign trade enterprise seeks to merge with or acquire an industrial enterprise, it should proceed in accordance with the above-mentioned regulations.

### 1. About Enterprise Mergers

A foreign trade enterprise may merge with an industrial enterprise with permission. As far as enterprises owned by the whole people are concerned, a merger may take the form of a transfer of properties without compensation. A merger plan should be put forward by the enterprise. A merger agreement should be drawn up by the two parties after full consultations. The creditor's rights and liabilities of the merged enterprise will be assumed by the post-merger foreign trade enterprise in accordance with the terms in the merger agreement. The merger between China Metals Corporation and Siping City Tungsten Molybdenum Materials Company and that between China Industrial Chemical Corporation and Siping City United Industrial Chemical Works and Siping City Pharmaceutical Company were processed in this manner.

### 2. About Enterprise Acquisitions

Enterprise acquisition is a form of merger with compensation. A foreign trade enterprise which decides on its own to acquire an industrial enterprise should come up with an acquisition plan. An acquisition agreement should be drawn up by the acquiring enterprise and the enterprise being acquired after full discussions. The creditor's rights and liabilities of the acquired enterprise should be assumed by the foreign trade enterprise in accordance with the terms of the acquisition agreement. Ningxia Metals Import and Export Corporation acquired Yinchuan Calcium Carbide Company in this manner.

### 3. About the Legal-Person Status of the Enterprise Being Merged or Acquired



Regardless of whether the case involves the transfer without compensation of the properties of an enterprise owned by the whole people or the transfer with compensation of the properties of a collectively owned enterprise, the original ownership system shall remain unchanged despite the change in its affiliation. Also unchanged will be its original independent legal person status under which it enjoys decision-making authority in its operations and assumes responsibility for its own profits and losses. That way we can first avoid putting old wine in new bottles, which would give rise to a new form of "eating off the big rice pot." Secondly, we want to fully mobilize the enthusiasm of both industry and trade. Thirdly, we can keep the more flexible operating mechanism.

## II

True to the spirit of the relevant national regulations, a foreign trade enterprise should abide by the following basic principles when it proposes to merge with or acquire an industrial enterprise:

1. Comply with the principles of mutual voluntary participation, supplementing one another's strengths, and common development. Departments in charge should not practice match-making when the parties involved are reluctant. Practice proves that forced mergers and acquisitions that ignore objective conditions and are based solely on subjective wishful thinking are often counterproductive. A foreign trade enterprise has its own characteristics. For example, it has good access to international market information, varied and multiple commodity marketing channels, and a specialized corps skilled in handling foreign economic relations and trade. Industrial enterprises too have features unique to themselves. Most, for instance, have fixed physical structures, including plants or land, a substantial quantity of machinery and equipment, and a corps of workers boasting a fairly high technical standard and practical experience. The two—a foreign trade enterprise and an industrial enterprise—are able to come together, breaking down administrative regional barriers and bridging the gap between different industries, mainly because this form of combination serves the common economic interests of both trade and industry and is consistent with the direction of their long-term development.

2. The foremost responsibility of a foreign trade enterprise, which lies at the heart of its work, is to work hard to expand exports and earn foreign exchange. In seeking to merge with or acquire an industrial enterprise, a foreign trade enterprise should abide by the principle that the new enterprise must be able to increase exports and earn more foreign exchange or do so after transformation. The foreign trade enterprise must strike a proper balance between concentrating on its core industry and diversifying its range of operations, between exporting and earning foreign exchange, on the one hand, and making a profit, on the other. It must strive to diversify into a variety of areas by revolving around its main industry.

3. Take stock of and appraise the assets of merged or acquired industrial enterprises carefully. Enterprise mergers and acquisitions in essence mean two parties trading property rights. Only a comprehensive, fair, and accurate inventory and appraisal of assets ensures the protection of the legitimate rights and interests of both parties and prevents the loss of state or collective properties. In line with the principle of comprehensiveness, fairness, and accuracy, the state has ruled that neither departments in charge of state property administration nor the departments overseeing the industries concerned should directly engage in the business of inventorying and appraising state properties. Instead, it should be conducted by a third party: a property appraisal company, an accounting firm, or an auditing firm certified by the state to appraise properties.

4. After taking stock of and appraisal its assets, an enterprise that is found to have more liabilities than assets in principle should not be accepted as candidates for merger or acquisition. In the real world, however, the situation is much more complicated. We should study each case in earnest and handle it with caution before making a decision. Some industrial enterprises may have more liabilities than assets, but they have development potential. In these cases one should consider their combination on the basis of voluntary participation.

5. Industrial enterprises that have been merged or acquired normally should not be given the authority to import and export. Importing, exporting, and related business activities should be handled centrally by the foreign trade enterprise. Where such authority is indeed justified, an application should be made in accordance with regulations. In the case of industrial enterprises already authorized to import and export before the merger or acquisition, such authority should remain intact.

6. The personnel management, appointment and dismissal of cadres, wages, bonuses and benefits, and social insurance, among other things, of the industrial enterprise merged or acquired should be processed in accordance with the appropriate regulations of the Ministry of Foreign Economic Relations and Trade or the local government concerned.

The merger and acquisition of industrial enterprises by foreign trade enterprises is a product of the deepening of foreign trade reform as well as the road foreign trade enterprises must travel to achieve industrialization. China's property rights market has yet to be standardized and the necessary laws and regulations are less than comprehensive, but provided we liberate our thinking, seek truth from facts, research diligently, and experiment boldly, our property rights market and the body of laws

## Rural Reform, Land System Viewed

94CE0290A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese No 12,  
20 Dec pp 3-7

[Article by Lin Yifu (2651 3015 1133) and Yang Jianping (2799 1696 1627) from the State Council's Development Research Center and the Office for Investigation and Research under the CPC Central Committee's General Office: "Perfecting the Land System, Developing the Land Market"]

[Text] A major problem in China's countryside today is the zero or even negative growth of the rural people's income. Now, the rural people's complaints about excessively heavy burdens have become a serious matter seldom heard of in the past. It is a direct reaction to the lack of growth in income. Lack of growth in income has dampened the rural people's initiative, shaken agriculture's position as the foundation of our national economy, and aroused the concern of all quarters. This state of affairs has prompted our country to dig into the root cause of the problem.

Whether the rural people's income can grow steadily depends on whether the mix of rural products and the proportions of rural people engaged in different fields of work are kept reasonable and are adjusted from time to time with the development of the economy. Agricultural products, especially grain, have a low Engel's coefficient. In the entire national economy, the proportion of needs for agricultural products, grain in particular, falls with the progress of economic development. This means that, as the economy grows, the only way to steadily increase the rural people's income is to adjust their product mix and occupational makeup so as to turn out more high-value-added products and have more people engaged in non-agricultural production. The problem that in recent years our grain production has increased but the rural people's income has declined is exactly an inevitable result of our failure to make the above adjustments in time.

In a market economy, the adjustments of the mix of products and the proportions of people in different occupations are automatic and quick. In China's rural areas, however, such adjustments do not occur as a quick reaction to signs of changes in the market condition. There are many reasons for this. One of the chief reasons is that, following the implementation of the land contract system, property rights are not clearly defined and, accordingly, cannot be transferred smoothly from one person to another. In other words, the imperfect land system and the slow development of the land market are main obstacles to improving our agricultural returns and

reform is the implementation of the output-related contract responsibility system based on households. The prime significance of this responsibility system lies in that it changes the old land system and distribution system. The tremendous achievements of our rural reform are universally acknowledged, but no reform can give benefits forever. In recent years, with the development of the rural economy, more and more hidden shortcomings in our present land system have been brought to light. While we have set the goal of building a socialist market economy, these shortcomings are placing hurdles in our way toward fostering a market economy in rural areas.

Since 1984, a variety of new problems have cropped up in China's rural areas. The crux of the problems is the conflict between the market mechanism pursued by the commodity economy and the administrative interference relied upon by the planned economy. From an objective viewpoint, the fast growth of agricultural production and the rural people's income before 1984 was abnormal. It was due to an immense surge of the farmers' productive enthusiasm, and hence a sudden eruption of the rural productive force, triggered by the change in the system. Such a fast growth had its limitations, and there is no reason to expect it to persist. After 1985, agricultural production and the rural people's income entered a stage of regular growth—a normal economic phenomenon. At a time in this stage, the grain output did not go up. On the one hand, this was inevitable when intra-agriculture adjustments were under way. On the other hand, it reflected the spontaneous need of farm households to act in accordance with the law of value after they had become the main elements in rural economic operations. With the decontrol of the markets for certain farm products and the rapid development of non-agricultural undertakings in rural areas, farmers, who could work on their own, would inevitably choose to produce those farm and sideline products that were relatively high-priced and had a high added value or would go to work in township enterprises or do their own businesses. That is to say, the market mechanism lured the rural people to spur the adjustment of the agricultural structure. It was due to this adjustment that the rural per-capita income increased rather quickly between 1984 and 1988. Unfortunately, we did not take advantage of that situation by using the market mechanism to adjust our supply and demand, allocate our resources, and guide our production. Instead, we judged the whole situation by the ups and downs in grain output. This led to the reinstatement after 1989 of a series of traditional measures to artificially adjust our agricultural structure, such as strengthening control over the agricultural production and input plans, increasing subsidie. to farmers

raising the government's grain procurement prices. At the same time, we restricted the flow of the agricultural labor force to urban areas and non-agricultural sectors, and controlled the production of farm products not included in the unified distribution plan in an effort to ensure a higher grain output. In so doing, we have forced our labor, land, and financial resources to go from the lucrative undertakings and products back to less profitable grain production. The results: On the one hand, our grain production no longer remains unchanged, but hit one record high after another. On the other hand, however, our gross agricultural output has not increased as noticeably as we expected, while the farmers' income has declined remarkably and the government's burden caused by subsidies has become heavier and heavier. What is more, the government's heavy burden has only invited the farmers' complaints about their declining income. This fully bears out the fact that the traditional policies and measures can no longer meet the needs of the new rural situation, and we must have a new mindset and seek a new way to solve the issue of agricultural development. The new mindset and new way is to deepen our rural reform by fostering the market so that the market mechanism, under the government's macro-guidance, will play a real fundamental role in the allocation of agricultural resources.

There are two tasks in fostering the rural market: One is to foster a product market. Here the main task is to do away with the unified and fixed-quota purchase system and to facilitate direct contact between producers and consumers so that the rural people can manage production in accordance with changes in social demands. The other task is to foster a production-element market. The principal work is to establish a mechanism for the free flow and optimum allocation of such production elements as labor, funds, and land. An active production-element market is a prerequisite for timely adjustments of the production structure in line with market demands. Only when production elements are exchanged and transferred freely between farm households and are combined in an optimum way based on their relative advantages, is it possible to adjust the rural production structure and occupational makeup in line with economic development.

Now, the governments at all levels have done a great deal of work toward building the product market. Contracted purchase is very popular, the grain price has been by and large liberalized, and pace is being quickened to foster the product market. In contrast, the development of the product-element market is comparatively slow. Now, in our rural areas, a number of limitations still exist on the flow of the labor force. The financial market is small and chaotic. In particular, due to delay in the formation of a rural land market, the household contract responsibility system has become an objective factor restricting the development, exploitation, and transfer of our land resources. Because of this, quickly fostering a land market should be a breakthrough point in our next move to deepen the rural reform.

Now, in our rural areas, the productive force is still at a low level, and nothing other than land can provide so many job opportunities for the people. Under such circumstances, land not only has the function of developing production, but also plays a social security role; that is, it has a welfare nature. For this reason, when the output-related household contract responsibility system was first introduced, land was allocated according to the number of household members. This was objectively necessary. Nevertheless, since land is one of the most fundamental elements of production, without a land market to invigorate it, the mobility of other production elements will be greatly hampered. So, even though fostering the land market is the most thorny task, we must do it in order to pave the way for an all-round and in-depth rural reform.

## II. The Present State and Problems of the Land Ownership System

The household contract responsibility system was quickly popularized in the tide of rural reform with the main goal of correcting the over-centralized control and the separation of labor and means of production inherent in the old system. It was correctly oriented and did tackle the vital points of the problems. However, practical experience over the past few years has revealed the following drawbacks of this land system:

With regard to the land use rights, there are three major problems: First, the instability of land contract periods has affected farmers' investment expectations. To avert the negative effect of short contract periods on farmers' investment zeal, the CPC Central Committee clearly stated in its No. 1 Document of 1984 that the term of a land contract is 15 years, and it cannot be changed. This did set farmers' minds "at ease." However, the statement that the term of the contract is so many years and is unchangeable or it can be extended implies, in itself, that after this number of years, eventually it may be changed. This means that the output-related contract responsibility system is still an expedient measure and cannot help stabilize farmers' long-term investment expectations. As farmers dare not provide too much input into the land, the reserve productive capacity of the land tends to diminish, resulting in the deterioration of production conditions. It is quite likely that with the approach of the termination of their 15-year contracts, farmers will all the more aim at short-term profits rather than long-term benefits in using the land. Secondly, the frequent readjustments of the contract responsibility land has led to numerous land-border disputes. The land distribution system based on household members has, in itself, the problem of frequent readjustments to cope with the change in the household size. The longer the time, the more such changes will occur and the more frequently the land has to be readjusted. A survey reveals that all rural areas have made remarkably more readjustments of their contracted land since 1985, and that an almost complete reshuffle has taken place in land distribution in a span of four or five years. The principle of "overall stability, minor readjustments" established by



the central authorities has been invoked by grassroots units as a basis to readjust their contract policies. The primary goal of such readjustment is to solve the land problem for the increased population. However, too frequent readjustments have added to the fragmentation of the already-divided contracted land and created a number of land-border disputes. This is another factor affecting farmers' investment in the contracted land. Thirdly, the fact that collectives such as township and village enterprises can use land without giving compensation has resulted in a waste of land resources. With the concept of the collective ownership of land, when setting up a new enterprise, a village collective may use, without paying anything, the land designated for contracting to farmers. Township enterprises may use contracted land freely or by paying a nominal fee as compensation. In many localities, when a township or village enterprise wants to take over a piece of land already contracted to a household, all it needs to do is to hire the main laborers of that household as its employees, and there is no further obligation. According to a survey of 280 villages conducted by a department concerned, under the condition that no state tax was levied on transactions involving the change of farmland into non-farmland, the compensation on 56.8 percent of the village-requisitioned land was less than 10 years' land rental, and the annual interest on the per-mu compensatory fee was below the bank's interest on savings deposits. The losses to the farmers were grave. The result of little or no compensation for land taken from farmers is that township and village enterprises have indiscriminately taken up large tracts of farmland, thus seizing resources from the hands of farmers and wasting the already-scanty arable land. However, because we have not formed a land market, land is apt to be viewed as a no-price resource, and even if we want to give it a reasonable price, it is hard to do so.

Two main problems exist with regard to land revenue: One is that various "covert taxes," levies, and income retentions have affected farmers' revenue from the contracted land and led to unequal financial burdens. After the land contract system was put into effect, no improvement has been made on the complicated and ambiguous land tax system formed at the time when all purchases and sales were monopolized by the state and when the people's communes still existed. Now, farmers are the main producers. They hope to see a simple and clear-cut land tax system. In their words, what they want is that "after paying enough to the state and giving enough for collective retention, all that remains is ours." Yet the current land tax system actually consists of two kinds of taxes—an overt tax (collected by the state) and a covert tax. The latter can be further divided into a hidden tax, which is actually the fixed-quota purchase of farm products by the state, and a concealed tax, which is the extra financial burden shifted onto farmers (in the form of various levies and income retentions). The covert tax is a highly flexible and arbitrary burden and often damages the interests of farmers. For this reason, it often induces farmers' complaints and resistance, and directly

dampens their enthusiasm about agricultural production. Now, many localities have adopted a "two-land system" which divides land into contract responsibility land and food-grain land. They use the contract responsibility land to guarantee the land tax revenue, but in doing this, they concentrate and aggravate the tax burden on one part of the land. The policy of using industry to subsidize agriculture is aimed at offsetting part of the hidden costs of farming. But, because different localities may give different subsidies to agriculture, this policy can add to the inequality in the distribution of burden. In fact, the principle of fairness, targeted by the equal distribution of land, has often been marred by the unequal land tax burden. The other problem is the unfair distribution of revenue from the increase in land value. This has directly affected farmers' interests. With the expanding scale of urban construction and the rapidly increasing numbers of large-area development zones, large tracts of farmland have been diverted to non-agricultural purposes. Now, a lot of farmland is being transformed into industrial and urban land. This is actually a shift of the primary industry's capital to the secondary and tertiary industries. Inevitably, such a shift will raise the value of land to a considerable extent. In our rural areas, land belongs to collectives, while farmers are members of the collectives and they get a share in the distribution of collective revenue on the basis of the land they are farming. For this reason, any revenue from the increase in land value should be reasonably distributed among the collectives, the farmers giving out the land, and the new land users. Nonetheless, the fact is that without a land market and effective government control and guidance, it is hard to decide on a reasonable land price, and it has become a common phenomenon that land is transferred at too low a price. What is more, a large amount of revenue from the increase in land value is enjoyed by new land users or small groups, while very little goes to collectives and farmers. In 1984, with the surging of township enterprises, there appeared a tide in using farmland for non-agriculture projects. At that time, a large part of the extra profit created by rural industries through the use of farmland was retained in the rural community either for use in subsidizing agriculture or for public welfare purposes. Now, a new tide of this nature is coming into being. Although industry and real estate business have created large amounts of extra profits from land, including revenue from the increase in land value, basically these profits do not benefit farmers at all. According to surveys in Guangdong, Hebei, and other localities, fees paid to farmers as compensation for use of their land, for making up for their loss of crops, and for subsidizing their resettlement expenses total only 2,000-20,000 yuan per mu, whereas land that has "roads, running water, and electricity and has been leveled" generally sells for 200,000-300,000 yuan per mu. Such a high revenue from the added land value is almost entirely enjoyed by the government departments or the real estate companies concerned. This has brought about a situation where government power is used to exploit the rural collective property. Such a situation has drawn

On the land-disposal right, the chief problem is the various subjective and objective restrictions on the subcontracting and transfer of land. These restrictions have three negative effects: In the first place, they affect the development of non-agricultural undertakings. To those farmers who wish to switch to industrial or commercial jobs, their contract responsibility land is a big hurdle because after they have given up farming, in most cases they still have to pay tax on the land and may even be fined for leaving the land idle. Further, because of the land's social security function and their inability to exchange the land for anything valuable, they can hardly come to a determination to leave the land. Secondly, these restrictions affect the development of land operations of scale. Appropriate-scale land operations is one of the significant measures to raise agricultural productivity, while the subcontracting and transfer of contracted land is a necessary condition for such operations. Now, on the one hand, in some rural areas there is no lack of high-caliber farmers, but due to the insufficient land contracted to them, their productive capability cannot be fully utilized. On the other hand, some farm households, for one reason or another, are unwilling to do farming with the result that large tracts of contract responsibility land are lying idle. Thirdly, the above-mentioned restrictions hinder the development of the rural financial market. With the continued change in the rural production structure and occupational makeup, rural people have an ever-increasing need for long-term loans from banks or other financial institutions so as to invest in new production projects. International experience and lessons show that long-term loans for agricultural production are possible only when there is an appropriate mortgage. The mortgage should not be subject to depreciation and should be immovable and invulnerable to damage. From this perspective, the land-using right is the most appropriate thing that rural people can use as mortgage. Failure to liberalize the land disposal right is bound to hinder the development of the rural financial market, thereby obstructing the readjustment and optimization of the rural production structure.

### **III. Enact and Perfect Relevant Laws and Regulations To Speed Up Land Market Development**

A sound land system should meet at least two requirements: One, a clear-cut property right; two, a self-adjusting and self-changing mechanism. The essence of building a land market is to set up and make perfect a system for the selling and reselling of the land-using right during the land contract period and to put this system within the framework of laws and regulations after we have clearly distinguished the land ownership from the land-using right.

In fact, whether our attitude toward fostering the land market is active or not, farmers have already acted in this direction, driven by their market-oriented initiative. In those areas where the economy is relatively developed

while, some local governments have implemented more active policies to protect farmers' interests in line with the development of the situation. In certain localities, the land contract period has been extended to 20-50 years—in Hainan Province, the contract period is as long as 70 years. In other localities, farmers who no longer want to farm their contracted land are allowed to subcontract or transfer their land-using rights to others as long as this does not affect the agricultural tax, the villages' income retention, and the fulfillment of the local farm labor plan. As an alternative, they may return their contracted land to the collective, which will give it to new contractors. Still other localities have adopted a "two-land system," which divides land into "food-grain land" and "contract responsibility land." The basic goal is to liberalize the transfer of the contract responsibility land while maintaining a stable guarantee for the people's food requirements. Now, it is rather common that land owned by rural collectives finds new applications or enters the market. This is especially noticeable in coastal developed areas and in the suburbs of inland cities. In most cases, this phenomenon finds expression in the utilization of land as a form of capital for industrial or real estate ventures, including joint and cooperative projects. At the same time, however, the practice of using various pretexts to indiscriminately divert farmland to other purposes is becoming an increasingly serious problem. Now, the farmland used for building development zones alone has exceeded 200 million mu. In the absence of a proper land market rule, this practice is causing more and more losses to the state, collectives, and farmers. This state of affairs, coupled with the problem of farmers leaving large tracts of farmland idle, indicates from another perspective the necessity and urgency of building a land market and making it perfect as soon as possible.

After introducing the small peasant-owner land system to replace the feudal land system and with the development of productive forces and the increase in employment opportunities, Japan, Korea, and some West European countries have all traversed a course from restricting to encouraging the transfer of land and finally to the development of appropriate-scale family farms. This shows that building the land market is a matter common to all countries.

In view of the land's dual function of production development and social security, we should comply with three principles, namely, efficiency, development, and fairness, in fostering our rural land market. The efficiency principle means that we should do our best to achieve the most rational and efficient use of land so that our limited land resources will give us more benefits. Through the transfer of the land-using right and with the adjustment by the market force, we may develop appropriate-scale operations to raise our agricultural productivity. By the development principle, we mean that

through the subcontracting and transfer of the land-using right, we should adjust and optimize the product mix and occupational makeup and develop non-agricultural production in the countryside as a way to spur the development of the entire rural economy. The fair principle means that in the course of transfer of the land-using right, we should ensure that farmers leaving their land will not be deprived of security for livelihood, and those transferring their land-using right to others will not lose the benefit from the increase in land value to which they are entitled. We should acknowledge the fact that the rural people are the natural beneficiaries of the collective-owned land. We should also give due recognition to the investment they put into the land during their contract period. This way, we will not only maintain social stability in rural areas, but also ensure equitable competition on the land market.

Now, we may start with the following five measures to foster the land market:

First of all, it is necessary to make clear that the output-related household contract responsibility system is a basic system, which will remain stable and unchanged for a long time to come. Practical experience shows that this contract responsibility system is a way of production suited to the current level of our rural productive forces. It must be taken as a foothold to proceed to the next stage of our rural reform. If the farmers do not request a change, the state should respect their choice and should not use administrative measures to impose any other rural cooperative system upon them. Now that the 15-year contract period, as stipulated in the CPC Central Committee's document, is running out, it is imperative to announce as soon as possible that the output-related contract system will remain unchanged and the farmers can continue to use the land for a long time to come. It would be best if something could be done to assure them that the land they are using "would not change whether there are births or deaths in their families." Only by deepening the reform toward improving the contract responsibility system and by clearly defining the relationship of land ownership versus the land-using right, can we avoid going astray in improving our land system.

Secondly, we should, by means of law, clearly define and protect the integrity of the rights to the use, revenue, and disposal of land. The integrity of these three rights means the integrity of the farmers' rights and interests under the contract responsibility system. It is also a fundamental condition for pushing land to the marketplace. The various acts at present infringing upon farmers' rights related to land operations can only be checked by a clear-cut land law. Since 1984, we have encouraged the buying and selling of the contract responsibility land but without noticeable success. One of the reasons is that we have not clearly specified the land-using right. Once we have a clear-cut land administrative law, we should issue land-using right certificates so as to give a legal protection to the output-related household contract responsibility system.

Thirdly, we should establish a system allowing land-using right certificates to be used as mortgage so as to facilitate the transfer of such right in rural areas. When the land-using right can be transferred in association with the use of certificates for the land-using right as mortgage and when the land-using right can be mortgaged through the transfer of such certificates, transfer of contracted land will be a very simple process. Once certificates for the land-using right can be transferred, it is possible to increase the average scale of land-related operations and raise the efficiency of land utilization. Mortgaging these certificates for loans will quicken the development of the financial market and the readjustment of the production structure in rural areas. Of course, specific requirements on such certificates should be established so as to facilitate the transfer of the land-using right and prevent farmers from using land as a value-guaranteed saving rather than a production element they should earnestly work with.

Fourthly, we should accelerate the formulation of laws and regulations on the land market so as to set a standard for its normal development. To meet the obvious needs and comply with the principle of land market development, we should work out as soon as possible a perfect legal system for the management and operation of the land market and check those acts that hurt the interests of the state and farmers in the lease or sales of the land-using right. The most urgent task at present is to levy a value-added tax on land at a progressive rate so that benefits from the increase in land value—as reflected in differential land rentals—will not go enormously to a few units and individuals. By doing so, we can put the inappropriate "real estate craze" to an end.

Fifthly, it is imperative to reform the land tax system so as to combine the overt and covert taxes into one tax. Now, our country's actual revenue from agriculture is gradually declining with the abolishment of the state monopoly system for the purchase and sales of agricultural products. The diversified rural economic activities, in particular the operations conducted by farm households, require socialized services provided by the government and other related organizations. This requires that townships and villages have a stable revenue. After the reform of the agricultural products procurement system, the covert tax should be turned into overt tax, and all kinds of expense apportionment and the special products tax should be abolished. Instead, a unified land tax system should be put into practice.

In coordination with the land tax reform, efforts should be made to improve the rural social security system so as to reduce the impact of market competition on farmers.

Though the above-mentioned tasks are interrelated, some of them can be started earlier than the others. However, we must have a proper overall plan for these tasks in order to ensure the integrity, orderliness, and equality of our land market.



Moreover, the silent emergence of the land market in our rural areas is a fact that we must acknowledge. This is a worthy attempt to better use land so as to achieve a higher marginal productivity. It is also a significant way to raise the rural people's income through the readjustment of their production and occupational structure.

The government should act in accordance with this trend to speed up the development and improvement of the land market. This is a vital part of the current work in building a socialist rural market economy as well as an effective way to break through the predicament of no growth in the rural people's income.

**Current State of Physically Challenged Persons**  
*94CM0162A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 161, 15 Jan 94 pp 47-51*

[Article by Zhao Zhuliang (6392 4554 5328) of the Central China Teachers' College, edited by Xu Honghai (6079 1347 3189): "The State of China's Physically Challenged Persons in the Course of Modernization"]

[Excerpt] [passage omitted]

In recent years, along with the development of China's physically challenged persons' cause, while the condition of this large and special group has improved to a certain extent, the current state of physically challenged in areas such as economics, education, jobs, and recovery, generally remains far behind the average level of the society as a whole.

**1. The threat-to-survival crisis.** Statistics show that of the 4.9 percent of China's population that are physically challenged, as many as 20 million are struggling to survive below the subsistence line, with 70 percent of physically challenged existing only with the support of family and relatives or on state or collective relief.

A study reported in the 1993 No 2 issue of ZHONGGUO CANJI REN [CHINA'S DISABLED PERSONS] says that: "Many physically challenged remain in great hardship, with basically not enough food and clothing. For instance, in Shaoyang City, Hunan Province, where economic conditions are better, the average income in 1991 was 545.19 yuan for the rural population, but only 264.64 yuan for physically challenged, or less than one-half. In Shaoyang's Xinning County, poverty-stricken physically challenged make up 64.4 percent of all physically challenged, with 17.2 percent in exceptional poverty."

A document put out by the China Coalition for the Disabled (the 1992 Document No 126 of the Coalition for the Disabled) contains the following item: While poverty relief is carried out, in certain developed or more developed areas, 70-80 percent of the poverty-stricken population below the local subsistence line are physically challenged. While Shunyi County has only 200 poverty-stricken families, 97 percent of them are families of the physically challenged. In one village in Chengde, all those living in thatched houses are physically challenged. Of the poverty-stricken population in 1991, physically challenged made up 80 percent in Qingdao, over 70 percent in Jiangsu, and 50 percent in Yunnan, Guizhou, and Sichuan.

**2. The inequality-of-education crisis.** The national rate of illiteracy or semi-literacy was 20.6 percent in 1987, but down to 15.6 percent by the end of 1991, while illiteracy of the physically challenged stood at 68 percent. And the national school-entrance rate for school-age children was 97.1 percent in 1987, and up to 97.8 percent by the end of 1991, while this rate in 1987 was 2.7 percent for blind children, 5.5 percent for deaf and dumb children, and

0.33 percent for low-intelligence children. By the end of 1991, the school-entrance rate for blind, deaf, and low-intelligence children was less than 10 percent.

This gap is even larger for education above the high-school level. Before 1984, almost none of China's physically challenged went to school above the high-school level. Since 1984, while physical-examination criteria have been amended, enabling about 1,700 physically challenged a year to meet political-examination, grades, and physical-examination standards for college admission, nearly 900 of these a year are still not admitted. By 1992, only a little over 5,000 physically challenged throughout China had received higher education at the university level.

Poverty and ignorance always go together. Approximately 70 percent of China's physically challenged are dependent on the support of family and relatives or state and collective relief, which figure is alarmingly close to the rate of illiteracy and semi-literacy among physically challenged. This warns us that a longstanding lack of education makes it hard for physically challenged to overcome their dependence on others and on society, leaving them in the regrettable plight of being a social burden.

**3. The job-obstacle puzzle.** While jobs are a means of livelihood, the terms on which individuals display their talent and grow, and the way that everyone can contribute to society, the jobs situation among China's physically challenged is far from desirable. In recent years, China's urban unemployment rate has been around 3 percent, and was down to 2.6 percent by 1991, while 49 percent of physically challenged were unemployed. In our rural areas, nearly 30 percent of employable or partially employable physically challenged were without jobs.

When physically challenged choose jobs, their range of free job-choice is very small. A sample survey shows the job situation for physically challenged in China has the following features: 1. By job classification, 81.2 percent work in farming, forestry, livestock raising, and fishery; 9.8 percent in production, transportation, and post and telecommunications; 5.5 percent in commercial service; 2.1 percent as specialized technicians; and 1.4 percent as government collective-enterprise officials, office workers, and at other jobs. 2. As to manual or mental labor, 96.6 percent of physically challenged work in manual jobs, such as agriculture, industry, and commerce, while only 3.4 percent work at mental jobs, such as specialized technicians and government enterprise officials, which is lower than the national ratio of mental laborers to the population of 8 percent.

**4. The health-care-security deficiency.** While a 1987 national sample survey showed that the most crucial need of about 50 percent of physically challenged was for treatment, recovery, and the necessary supplementary appliances, a 1992 sample survey of 11 provinces found

that 97 percent of physically challenged needed supplementary appliances and special articles, which nearly 90 percent could not obtain.

China has 4.9 million people who have gone blind because of cataracts, and 17.7 million deaf people (of whom 1.71 million are children under the age of 14, and 740,000 are infants under the age of 7), with every year bringing about 30,000 new deaf children, and 1.24 million suffering from the aftermath of polio. By the end of 1992, only a little over 700,000 had had cataract surgery, only a little more than 280,000 had had corrective surgery for polio [infantile paralysis], and only slightly more than 29,000 deaf-mutes had been trained to sign. This data shows that the health-care-security deficiency keeps many physically challenged in bed for long years, cut off from the world, and unable to take an equal part in social activities.

**5. The marriage-and-family misfortune.** A 1987 sample survey showed that of the 43 million adult physically challenged throughout China, 20.21 million, or 47 percent of adult physically challenged, did not have spouses, while the national unmarried rate for adults was roughly 8 percent; the family divorce rate for the physically challenged was a high of 1.46 percent, almost triple the sound-family divorce rate of 0.55 percent; and the widowed rate for physically challenged was 32.17 percent, more than quadruple the healthy widowed rate of 7.61 percent. Their physical defects, psychological barriers, and social and economic status limitations turn the marriage and family matter for physically challenged into the most troublesome problem they face.

In short, within the general setting of the Chinese people's march toward becoming comfortably well-off, two-thirds of physically challenged still cannot support themselves, with nearly 20 million not having enough food and clothing; physically challenged have a high 68-percent illiteracy rate, with almost 90 percent of blind, deaf, and low-intelligence children not in school; quite a few employable physically challenged have no jobs, for a high 49-percent unemployment rate; and most physically challenged have not obtained the care needed for recovery... leaving such an enormous and shocking social problem harshly confronting society and physically challenged.

[passage omitted]

#### Article Analyzes Phenomenon of Structural Corruption

94CM0162B Shanghai SHEHUI [SOCIETY]  
in Chinese No 108, Jan 94 pp 13-15

[Article by Cheng Guoyou (4453 0948 2589): A Plain Discussion of Structural Corruption"]

[Excerpts] [passage omitted] I hold that corruption can be divided into the two general categories of nonstructural and structural. So-called nonstructural corruption

refers to the exploitation by some of their job conveniences and authority to engage in corrupt actions that directly encroach on and damage the interests of others or of society, such as graft, bribe-taking, and fraud. As such corrupt behavior directly violates the law, it can be punished by law and, as long as the party and government pay it great attention and control it strongly, it is very easy to root out. But so-called structural corruption refers to the exploitation by certain people of their regular job conveniences and authority in particular social, political, and economic structures, due to management systems and regulations being imperfect and unsound, and premised on not affecting their own organizational interests and ensuring that their own organizations operate normally according to practice, to engage in certain behavior for private gain, such as trading power for profit, exchanging power for money, trading power for material, using public monies for entertaining and gift-giving, traveling abroad at public expense, using public vehicles for private purposes, using public office for private gain, and indulging in extravagance and waste. Such corrupt behavior is necessarily much more covert than nonstructural corruption. It may apparently not be a direct violation of laws and regulations, or be a violation that is very hard to expose, as long as "only a few know about it." Due to this feature of structural corruption, it is very hard to investigate and punish, as well as being very liable to spreading quickly once the climate eases. And it is only when it abets the growth of nonstructural corruption, or corrupts overall social values, or has a significant impact on overall public interests, that it arouses great attention by the general public. As China's political and economic management systems are still not perfect and sound in many areas, structural corruption occupies a key position in corrupt behavior. This is precisely why the phenomenon of corruption has always been hard to curb. Having investigated the case records of a certain province for 1991, I have discovered that most of the cases handled were nonstructural corruption (direct violations), mostly graft, while there were very few cases of structural corruption, showing that structural corruption is very covert and hard to investigate and punish.

China's current structural corruption can be roughly divided again into the following four situations.

**1. Corruption caused by shortages.** Shortages in the field of economics show up as demand exceeding supply for certain goods (funds) with designated prices. When the macroeconomy is not controlled or uncontrollable, the choice of clients by functional departments of enterprises, commodity departments, or officials in charge of certain commodities or fund distribution becomes a kind of power which, under existing conditions, easily turns into a certain individual's power. As the choice of client does not in any case affect the department's normal operations, the individual exploitation of such power for private gain falls within the normal range of responsibility, with very little likelihood of severe censure, so that quite naturally, the choice of whoever makes the most gifts is also logical.



widespread, showing up mainly as demand exceeding supply for officials, cadres, and workers, or limited positions with many wishing to become officials, cadres, and workers. This gives great power to organizational, personnel, and labor departments, or certain other departments and individuals with jurisdiction over personnel, which power, without democracy, openness, or effective restraint, is very easily exploited for private purposes. As whoever is chosen does not directly impact the organization per se, being part of the organization's normal work responsibility, such conduct for private purposes is hard to uncover. And while it might be condemned by outsiders (which condemnation is very dangerous), it is very difficult for it to be genuinely investigated and punished.

So shortages obviously create power. Since the individual exploitation of such power does not directly endanger normal organizational activities, as long as democracy is imperfect and individual power is not effectively restrained by organizations, it will be widely exploited for private gain, leaving such corruption to spread.

It needs to be pointed out that under our traditional system before 1979, while shortages were more severe than at present, the phenomenon of corruption was certainly not as serious. This was because the state exercised strict control over areas, such as personnel, wages, prices, and markets, putting more limits on such corruption.

**2. Corruption caused by irregular competition.** Competition was the product of our development of a commodity economy, being an inevitable social development. Reasonable competition can make excellence even better, and transform inferiority into excellence, contributing to economic development, the display of pent-up talent, and social progress.

But when rational competition mechanisms are still imperfect, certain people will actively draw or depend on certain powers to give themselves an advantageous position in competition, while also granting certain benefits to powerholders. This power in turn helps them to further strengthen their advantageous position in competition, forming the logical equation of power plus competition equals success. On the other hand, competitors who have not found any patronage are left in a disadvantageous position, finding it either impossible or difficult to go on. The current dual-pricing system's "official" and "private" corruption are typical examples of power combined with competition. Most of the economic entities now being run by certain government organs or functional departments are also suspect due to this.

**3. Corruption caused by imperfect power-oversight mechanisms per se.** Perfect power-oversight mechanisms should include internal oversight mechanisms, external oversight mechanisms, and oversight mechanisms for

neither internal or external oversight mechanisms, not to speak of any oversight of the overseers. While there are certain written prohibitions and regulations at times, there are no genuine oversight organs or personnel. For instance, bank credit officers have the three powers of investigation, examination, and approval concentrated in one post, with certainly no oversight or restraint organs. 2) Even when there are internal and external oversight mechanisms, there is certainly no oversight of the overseers. In addition, the poor quality of certain overseers saps the oversight function, which can be seen in certain public servants violating the law in its enforcement, not acting in accordance with the law, and not enforcing the law strictly. 3) When there is only internal oversight but no external oversight or oversight of the overseers, certain organs of power become the enforcers as well as the overseers of power. [passage omitted]

For instance, while government departments have internal supervision bureaus and party committees have discipline-inspection commissions, their external oversight is generally only through written prohibitions and regulations by upper-level governments or party committees without any substantive oversight-enforcement organs.

With such imperfect oversight mechanisms, it is actually very hard to stop the exploitation of public power for private gain and striving for small-group interests, and neglecting current activities, such as the private use of public vehicles, the use of public office for private gain, the use of power for private purposes, and light punishments for serious crimes, not at all surprising. Certain powerholders also dare to state recklessly that: "I will not act without advantage, I will act with advantage, and I will do anything for more advantage," the crux of which is "orders that are not followed, and prohibitions that do not work."

Not only are oversight mechanisms imperfect, but party and government organs are bloated and overstaffed. So certain departments overstep their jurisdictions, exploiting their power actively, by looking for matters to handle where there are none, seeking for power to exploit where there is none, and artificially setting up obstacles in political and economic activities to create shortages and power to exploit for private gain. For instance, actions, such as inspecting, evaluating, setting up blocks, and issuing documents to restrict X, or exerting invisible pressure on certain sectors, are precisely the root of the spread of "arbitrary charges, fines, and apportionments" and other unhealthy tendencies.

**4. Corruption caused by dependency connections among powerholders.** China's current cadre-appointment system-model is mainly one of "connections" and appointments by superiors, with the appointments and powers of lower-level officials controlled not by the people, but rather by the superior pertinent leaders, with certain

subordinate interests also controlled by certain upper-level departments and leaders. So subordinate officials, in order to protect their powers or partial interests, often do no hesitate to entertain or make gifts to their superiors at public expense, in order to harmonize upper and lower connections, consolidate their own positions, or gain local benefits. This is probably one of the causes of the much-prohibited yet unstoppable entertaining and gift-giving at public expense. [passage omitted]

### Three Types of 'Pseudo-Aristocrats'

94CM0093 Changsha FAZHI YUEKAN [LEGAL SYSTEM MONTHLY] in Chinese No 145, 5 Oct 93 pp 38-39

[Article by Zhang Shuming (1728 2562 2494): "Pseudo-Aristocrats"]

[Excerpts] In recent years, exclusive establishments catering solely to the pleasures of aristocrats have sprung up in such places as Guangzhou and Shanghai. They operate under the slogan "members only." Surprisingly, the use of this slogan has damaged the "self-esteem" of many, leading them to ask themselves the question: "Why am I left out?" As a consequence, "pseudo-aristocrats" of every kind have emerged. As the name implies, a "pseudo-aristocrat" is not a true aristocrat. Rather, he is one who makes a grand entrance in those places frequented by aristocrats. There are, roughly speaking, three kinds of "pseudo-aristocrats." The first kind is known as the "person with contacts." This type is comprised of mainly executive department personnel who use their official duties to inspect management operations and maintain public order as a springboard to gain entry into the establishments frequented by aristocrats. Or course, the managers and owners of the establishments catering to aristocrats cannot treat these people rudely, and so they give them indefinite "entrance passes" which are "tickets" that would otherwise cost several thousand yuan or even over ten thousand yuan to buy. These persons with "contacts" are thereby allowed to fully enjoy the perks of the aristocrat lifestyle. The second kind is known as a "wannabe." These persons cannot resist the enormous lure of the "aristocrat lifestyle," and the burning desires in their hearts lead them to gather up all of their savings so that they may make loans to aristocrat establishments and thereby enjoy the perks of the same. This type of "pseudo-aristocrat" is the most dangerous. The third kind is known as the "momentarily flush." This kind of person acts in a fairly reasonable manner. When he is flush with money he goes out and "lives it up," and when he is broke he will restrain himself so that he does not get in over his head. This group is made up of poor people who enthusiastically pursue wealth and a quick improvement in lifestyle. Some say that the social phenomenon of the "pseudo-aristocrat" will, like that of drug use, be difficult to reverse once the people get a taste of what they are craving. If drug use is harmful to the physical and mental health of individuals, then "pseudo-aristocracy" is a chronic spiritual disease that is tough to

cure. It is not hard to see that the ranks of the "pseudo-aristocrats" continue to swell as people hanker after greater luxury and enjoyment. How ought we regard this phenomenon of the "pseudo-aristocrat?"

One executive branch cadre with years of party experience says that the "pseudo-aristocrat" phenomenon certainly does exist among executive branch cadres. Once people take the bait, party status and principles are pushed to the back of their minds. As a result, certain high-class establishments emerge, devoted to such things as illegal activities and sex services, and this happens because law enforcement is lax. This seriously disrupts the socio-economic order and should be a matter of concern for our whole society. A propaganda cadre says passionately that China's public opinion and propaganda organs must take a certain amount of responsibility for the emergence and spread of the "pseudo-aristocrat." In earlier days, the public opinion organs went overboard against things like "big money," "big operators," and "abnormal consumption," while exercising very little tact. As a result, certain weak-willed individuals reacted just the opposite and began joining the ranks of the "pseudo-aristocrats." Conversely, it is clear that not enough propaganda has been done about correct consumption, and in the future, improvements must be made in our guidance of public opinion. Without discussing how "abnormal consumption" momentarily expands the ranks of the aristocrats, we can say that the "pseudo-aristocrat" phenomenon has led certain law enforcement personnel to fail in vigorously enforcing the law, to abandon principles, and even to adopt criminal ways.

### Rapid Growth of Underground Criminal Societies

Shanghai SHEHUI [SOCIETY] in Chinese No 105, Oct 93 pp 47-48

[Article by Sun Hui (1327 6540) and Wu Mengshuan (0702 1322 2165): "Underground Criminal Societies Rapidly Expand Their Influence"]

[Excerpts] First of all, the influence of recently formed underground criminal societies within China is expanding at an alarming rate! Currently, more and more criminal gangs and unhealthy organizations are turning into underground criminal societies with even stronger and more one-pointed devotion to crime. The rapid numerical growth in underground criminal societies stems from the major increase in criminal gangs over successive years. In 1990, 100,527 criminal gangs with 368,885 members were identified throughout the country. Both the number of gangs and their membership were three times as large as that of 1985. And while the numbers of those involved in underground criminal societies has rapidly grown, the influence of these societies has spread throughout all regions of the country. Fairly large-scale underground criminal societies have been identified in Harbin, Shaoyang of Hunan Province, Guiyang of Guizhou Province, Yancheng of Jiangsu Province, and Yuncheng of Shanxi Province, while the

situation in the southeastern coastal regions is even more critical than in the north or in the hinterland. Looking at an individual province, underground criminal societies have been found operating in 18 regions and cities of Hunan Province, as an example. The members of underground criminal societies are primarily the dregs of society's idlers, while the nucleus and backbone of these gangs is made up of wayward habitual criminals, recidivists, those running from the law, as well as those who have not been reformed through the two types of labor. These types of individuals have long taken an anti-social stance, conducting themselves in a wicked, merciless, and unscrupulous fashion as they engage in unbridled criminal activity without regard for the consequences. They represent the worst sort of criminal influence we are confronted with, and they are the hardcore operators behind the exercise of underground criminal society influence. A significant segment of the underground criminal society operates under a clear reactionary agenda colored deeply by political designs. For example, the "China crime party" and the "plum blossom gang", both of which were located and busted by public security organs, had clearly established reactionary agendas based on "seizing territory and political power." The huge growth in underground criminal society influence is also shown by the massive wealth these individuals have acquired through illegal means. They have used every sort of method to lay hold of firearms, ammunition, hand grenades, daggers, electrical billy clubs, poison guns, tear gas cannisters, and other lethal weapons, and they illegally manufacture firearms and ammunition for themselves. For example, in early April of 1991, the "wolf gang" was busted in the Yuncheng region of Shanxi Province, and they were found to possess 22 firearms, 10 of which were home-made. At the end of 1991 and the beginning of 1992, eight underground criminal gangs were busted in Guiyang and they were found to have 17 handguns and rifles, as well as military grenades, mortars, bulletproof vests, hunting knives, daggers, and other lethal weapons. Underground criminal societies generally possess modern means of transportation and advanced communications facilities. For example, the underground criminal society headed by Wu Jiazhen [0702 0502 3791] in a certain suburb of Yancheng, Jiangsu Province, has vehicles for all of its thugs. Also, it has set up communications links by purchasing a radio station and walkie-talkies, and it has installed a tower antenna over 20 meters high in front of the entrance to its headquarters building. The "wolf gang" of Shanxi Province controlled all of the drivers of our unit and used our vehicles to carry out their criminal activities.

Underground criminal societies have many members, they are tightly organized, they have a considerable stockpile of weapons, and most of the members are more hardened in their criminal ways than the run of the mill criminals and gangs, and for these reasons, the influence of the underground criminal societies is deeper and more pernicious. For the most part, these people brazenly commit their crimes in the open, not hesitating to kill,

injure, rob, steal, swindle, blackmail, kidnap, smuggle, or traffic in and use narcotics, and they will go so far as to illegally imprison individuals. In addition to these serious crimes, members will freely beat up and insult people, oppress whole towns by bullying the businessmen, eat and drink their fill without paying, forcibly take whatever they desire, wantonly insult women, extort money and items from sources public and private, commit every manner of crime, seriously prejudice the good order of society, and disturb normal social order. They have become a new form of mass oppressor, they try to dominate through evil deeds, and they represent a wicked force that challenges the political power of the people and the laws of the state. For example, since 1988, the city of Shaoyang has had at least 25 cases of persons having their hands and/or feet chopped off. In some cases, persons have had their fingers chopped off or smashed, while others have had the tendons in their feet slit out and discarded. When the same persons go to the hospital to have new tendons transplanted, the savage criminals track them down to re-slit and discard the tendons, and then smash their kneecaps and ankles. Another trend is that criminal societies are infiltrating the business world, actively seeking legal business fronts, thereby establishing a base for operations. Some criminal societies even use ill-gotten wealth to make contributions and donations and to render aid, seeking political capital in the process and ensconcing themselves in protective surroundings. Criminal societies employ various means to bribe, entice, and corrupt personnel of party and government organs, and in particular public security and justice workers, into acting as protective umbrellas. They use these people to shelter criminal actions, to facilitate crime, and to gain privileged information. A small minority of cadres and policemen become corrupt after failing to resist temptations. They shelter the criminal societies and either do nothing about the illegal criminal activity or they do next to nothing about it. Some even drink toasts with the criminals and pass along privileged information. Several major crime society stings have shown this to be the case, and it has forced public security organs to set up secret operational cells in secret locations to work in a highly concealed manner. As the influence of underground criminal societies grows wildly within China, outside and foreign criminal elements are taking advantage of our country's gradual opening to the outside world. They are stepping up their infiltration of Mainland China, trying to establish a foothold, open up a "new battlefield", or seek refuge on the mainland. Underground criminal societies from Hong Kong, Macao, Taiwan, and Japan have been the most pernicious in this regard. They have infiltrated the southeast coastal regions and have conspired with evil elements in those areas to join forces. The harm this represents is significant. Especially in the last few years, international drug cartels have tried to open up routes for their drug trade through China. The drug trade has become the medium for underground criminal societies both within China and abroad. For example, in July of 1990, when the Taiwan police launched a crime raid under the code name "sudden thunder", the "kingpin"



of the so-called "firefly bridge gang", Zhang Zhenqian [1728 4176 3383], moved to the mainland and set up the Zhongshan Trading Company in Xiamen. His business expanded to Fuzhou, Shanghai, and Beijing, among other places, and Zhang became "brothers" with a certain Chinese painting master. He registered in Beijing and continued to engage in crime. In February of 1992, our police captured him and extradited him to Taiwan. According to the estimates of the Taiwan press, there are now over 200 underground Taiwan criminals of the big brother rank or higher operating on the mainland, approximately 30 of whom carry guns. It is obvious that outside criminal influence permeates our country party and government organs and departments are the focal

points of outside criminal infiltration. Customs, border defense, and public security organs are particular targets. In Guangdong Province, a small percentage of the border defense station officials have been bribed by criminal societies from Macao into helping sneak things across the border. And a very small number of public security cadres and policemen have been recruited by the Shui-fang and Shenghe gangs of Hong Kong. While infiltrating the mainland, underground criminal societies from abroad wantonly engage in criminal activity. For example, in the Friendship Market robbery case in Shenzhen, aside from one student being involved, all of the perpetrators were members of the "14K" and "Shui-fang" gangs.

**Rapid Growth of Underground Criminal Societies**  
*Shanghai SHEHUI [SOCIETY] in Chinese No 105,*  
*Oct 93 pp 47-48*

[Article by Sun Hui (1327 6540) and Wu Menghuan (0702 1322 2165): "Underground Criminal Societies Rapidly Expand Their Influence"]

[Excerpts] First of all, the influence of recently formed underground criminal societies within China is expanding at an alarming rate! Currently, more and more criminal gangs and unhealthy organizations are turning into underground criminal societies with even stronger and more one-pointed devotion to crime. The rapid numerical growth in underground criminal societies stems from the major increase in criminal gangs over successive years. In 1990, 100,527 criminal gangs with 368,885 members were identified throughout the country. Both the number of gangs and their membership were three times as large as that of 1985. And while the numbers of those involved in underground criminal societies has rapidly grown, the influence of these societies has spread throughout all regions of the country. Fairly large-scale underground criminal societies have been identified in Harbin, Shaoyang of Hunan Province, Guiyang of Guizhou Province, Yancheng of Jiangsu Province, and Yuncheng of Shanxi Province, while the situation in the southeastern coastal regions is even more critical than in the north or in the hinterland. Looking at an individual province, underground criminal societies have been found operating in 18 regions and cities of Hunan Province, as an example. The members of underground criminal societies are primarily the dregs of society's idlers, while the nucleus and backbone of these gangs is made up of wayward habitual criminals, recidivists, those running from the law, as well as those who have not been reformed through the two types of labor. These types of individuals have long taken an anti-social stance, conducting themselves in a wicked, merciless, and unscrupulous fashion as they engage in unbridled criminal activity without regard for the consequences. They represent the worst sort of criminal influence we are confronted with, and they are the hardcore operators behind the exercise of underground criminal society influence. A significant segment of the underground criminal society operates under a clear reactionary agenda colored deeply by political designs. For example, the "China crime party" and the "plum blossom gang", both of which were located and busted by public security organs, had clearly established reactionary agendas based on "seizing territory and political power." The huge growth in underground criminal society influence is also shown by the massive wealth these individuals have acquired through illegal means. They have used every sort of method to lay hold of firearms, ammunition, hand grenades, daggers, electrical billy clubs, poison guns, tear gas cannisters, and other lethal weapons, and they illegally manufacture firearms and ammunition for themselves. For example, in early April of 1991, the "wolf gang" was busted in the Yuncheng region of Shanxi Province, and they were found to possess 22

firearms, 10 of which were home-made. At the end of 1991 and the beginning of 1992, eight underground criminal gangs were busted in Guiyang and they were found to have 17 handguns and rifles, as well as military grenades, mortars, bulletproof vests, hunting knives, daggers, and other lethal weapons. Underground criminal societies generally possess modern means of transportation and advanced communications facilities. For example, the underground criminal society headed by Wu Jiazhen [0702 0502 3791] in a certain suburb of Yancheng, Jiangsu Province, has vehicles for all of its thugs. Also, it has set up communications links by purchasing a radio station and walkie-talkies, and it has installed a tower antenna over 20 meters high in front of the entrance to its headquarters building. The "wolf gang" of Shanxi Province controlled all of the drivers of our unit and used our vehicles to carry out their criminal activities.

Underground criminal societies have many members, they are tightly organized, they have a considerable stockpile of weapons, and most of the members are more hardened in their criminal ways than the run of the mill criminals and gangs, and for these reasons, the influence of the underground criminal societies is deeper and more pernicious. For the most part, these people brazenly commit their crimes in the open, not hesitating to kill, injure, rob, steal, swindle, blackmail, kidnap, smuggle, or traffic in and use narcotics, and they will go so far as to illegally imprison individuals. In addition to these serious crimes, members will freely beat up and insult people, oppress whole towns by bullying the businessmen, eat and drink their fill without paying, forcibly take whatever they desire, wantonly insult women, extort money and items from sources public and private, commit every manner of crime, seriously prejudice the good order of society, and disturb normal social order. They have become a new form of mass oppressor, they try to dominate through evil deeds, and they represent a wicked force that challenges the political power of the people and the laws of the state. For example, since 1988, the city of Shaoyang has had at least 25 cases of persons having their hands and/or feet chopped off. In some cases, persons have had their fingers chopped off or smashed, while others have had the tendons in their feet slit out and discarded. When the same persons go to the hospital to have new tendons transplanted, the savage criminals track them down to re-slit and discard the tendons, and then smash their kneecaps and ankles. Another trend is that criminal societies are infiltrating the business world, actively seeking legal business fronts, thereby establishing a base for operations. Some criminal societies even use ill-gotten wealth to make contributions and donations and to render aid, seeking political capital in the process and ensconcing themselves in protective surroundings. Criminal societies employ various means to bribe, entice, and corrupt personnel of party and government organs, and in particular public security and justice workers, into acting as protective umbrellas. They use these people to shelter criminal

actions, to facilitate crime, and to gain privileged information. A small minority of cadres and policemen become corrupt after failing to resist temptations. They shelter the criminal societies and either do nothing about the illegal criminal activity or they do next to nothing about it. Some even drink toasts with the criminals and pass along privileged information. Several major crime society stings have shown this to be the case, and it has forced public security organs to set up secret operational cells in secret locations to work in a highly concealed manner. As the influence of underground criminal societies grows wildly within China, outside and foreign criminal elements are taking advantage of our country's gradual opening to the outside world. They are stepping up their infiltration of Mainland China, trying to establish a foothold, open up a "new battlefield", or seek refuge on the mainland. Underground criminal societies from Hong Kong, Macao, Taiwan, and Japan have been the most pernicious in this regard. They have infiltrated the southeast coastal regions and have conspired with evil elements in those areas to join forces. The harm this represents is significant. Especially in the last few years, international drug cartels have tried to open up routes for their drug trade through China. The drug trade has become the medium for underground criminal societies both within China and abroad. For example, in July of 1990, when the Taiwan police launched a crime raid under the code name "sudden thunder", the "kingpin" of the so-called "firefly bridge gang," Zhang Zhenqian [1728 4176 3383], moved to the mainland and set up the Zhongshan Trading Company in Xiamen. His business expanded to Fuzhou, Shanghai, and Beijing, among other places, and Zhang became "brothers" with a certain Chinese painting master. He registered in Beijing and continued to engage in crime. In February of 1992, our police captured him and extradited him to Taiwan. According to the estimates of the Taiwan press, there are now over 200 underground Taiwan criminals of the big brother rank or higher operating on the mainland, approximately 30 of whom carry guns. It is obvious that outside criminal influence permeates our country! Party and government organs and departments are the focal points of outside criminal infiltration. Customs, border defense, and public security organs are particular targets. In Guangdong Province, a small percentage of the border defense station officials have been bribed by criminal societies from Macao into helping sneak things across the border. And a very small number of public security cadres and policemen have been recruited by the Shuifang and Shenghe gangs of Hong Kong. While infiltrating the mainland, underground criminal societies from abroad wantonly engage in criminal activity. For example, in the Friendship Market robbery case in Shenzhen, aside from one student being involved, all of the perpetrators were members of the 14K and Shuifang gangs. [passage omitted]

#### Qinghai MD Commander on Conscription

94CM0154A Xining QINGHAI RIBAO in Chinese  
4 Dec 93 p 1

[Article by Yin Shenghua: "In One Hand Grasp New Recruit Quality, In the Other Grasp Honest Recruitment and Welcoming of Recruits"]

[Text] Qinghai Provincial Military District Commander Zhang Meiyuan [1728 5019 6678], speaking on 30 November at a meeting of the provincial conscription small group emphasized that we must both pay strict regard to the quality of soldiers being conscripted as well as insure that conscription and acceptance is done in an honest manner, guaranteeing that the work is completed successfully. He stated that the provincial conscription work has completed the first three phases of public announcement and registration, education evaluations and physical examinations and now we are entering the phase of political investigations, induction and transportation. In order to guarantee that the conscription assignment levied on our province by the State Council and the Central Military Commission is completed on time, safely and according to high quality standards, in the coming days we must focus on both the quality of the new conscripts and on honesty in conscription and acceptance work. He stated that focusing on political quality is of extreme importance and each level of the party committees, the government, the military organs, public security and the grass roots organs have the responsibility to carry out a responsible political investigation of the newly selected conscripts, and must resolve to not induct or to accept even one new soldier not meeting the political criteria. In order to guarantee the quality of the new inductees and the honesty of the conscription and acceptance process, this aspect cannot be slighted in the least. When the key moment of decision is reached, supervision must be augmented; in conscription and acceptance, both sides must accept supervision; the military service organs must accept supervision by the masses. All persons who participate in conscription and acceptance work must be honest and self-disciplined, accept no personal favors, take no bribes, make no promises, and create an environment of equal competition for those being conscripted. Make a good impression on the minds and hearts of the masses; by words and actions, give the new recruits their first lesson in honest government. Commander Zhang also specifically made the point of requesting all levels of the military services and the discipline inspection departments to handle the communications and visitations of the masses conscientiously, but people or situations which seem to take advantage of the conscription process to thwart or transgress discipline should be investigated thoroughly, and miscreants punished severely. At the same time, conscientiously handle the ideological work associated with the youths and the parents of the youths who answered the call but were disqualified or eliminated because of numerical restrictions; cherish and preserve their willingness to voluntarily offer themselves for the cause of national defense.

#### PSB, Customs Counter Smuggling Operations

94CM0154B Beijing RENMIN GONGAN BAO  
in Chinese 23 Dec 93 p 1

[Text] Over the past three months, under the overall leadership of the Public Security Bureau, the public security organs in various places have actively pursued



large, major smuggling cases. As of the end of November, they have cracked 22 major cases of smuggling in Shandong, Guangxi, Jiangsu, Liaoning, Zhejiang, Hainan, Fujian and other provinces, confiscating 1,557 smuggled vehicles, 29,000 cases of cigarettes, 23,800 tons of scrap metal, as well as air conditioners, color television sets, cameras and other items worth some 260 million yuan. On the evening of 24 July this year, the Huanqiu, a freighter of Honduran registry belonging to the Hong Kong Maritime Shipping Company Limited, entered Yantai harbor carrying 8,000 cartons of contraband cigarettes bound for the Fugang [Fujian-Hong Kong] Fuxing Aquatic Products Company Limited of Yantai city in Shandong Province. The Yantai Coastal Defense units in close cooperation with the customs departments, worked on the case from four different angles. On the following day when the Huanqiu off-loaded the contraband at Bajiao Port in Fushan and prepared to depart, all

of the smugglers were apprehended on the scene. The Qinzhou Prefecture Economic Development General Corporation in Guangxi and the Dongxing South-Central Economic Development Corporation and the Qinzhou Prefecture Materials Trade Corporation smuggled in 25 vehicles and 100 copy machines. When the Guangxi Qinzhou Prefecture Anti-smuggling Office received reports of this from the public, they acted immediately and nabbed all of the smugglers. At present, the public security organs in Shandong, Guangxi, Jiangsu, Liaoning, Zhejiang, Hainan and Fujian, acting under the instructions of the party center and State Council to vigorously prosecute all crimes of smuggling, are actively investigating other cases under the guidance of the Public Security Bureau and are striving for even greater achievements.

[Article by Ho An-ta (0149 1344 6671): "The Democracy Faction Is Defending Its Authority, While the Democratic Alliance for the Betterment of Hong Kong Breaks Out of Its Encirclement—A Concurrent Review of Hong Kong's Political Forces in the Last Four Years"]

[Text] The 1989 Tiananmen incident forced the democracy faction to organize its groupings into the "Hong Kong Democracy League" [HKDL], making it the first political party to call itself an organization for participation in government and political affairs since the Hong Kong Government began to practice a representative system of government in the early 1980s.

Since then, influenced by the "4 June" effect, the HKDL has made a remarkable showing in all direct elections at all levels. While the HKDL at the time had only about 530 party members, including 80 who took part in the district parliamentary reelections, its success rate turned out to reach 70 percent. By the time of the first Legislative Council [LEGCO] direct elections, except for their defeat in the New Territories East election district, all other HKDL candidates won easily.

But since the HKDL's victory in 1991, while it has been able to retain its position in most public opinion polls as the best-received political party, its real score is in a declining trend. Independent Congressman Liu Hui-ch'ing [0491 1979 0615] has outdone Li Chu-ming [2621 2691 6900] to become Hong Kong's best-received directly-elected congressman.

Meanwhile, the Cooperative Resource Center [CRC], composed of 17 LEGCO members, has changed into the Liberal Party [LP]. As to number of party members alone, the LP has about 2,000 members, having replaced the HKDL as the political party with the largest membership.

During the Sino-British controversy, the LP visited Beijing, proposing that the two countries might first resolve their dispute over the 1994 district parliamentary elections, only on which cooperative basis they could then deal with the more thorny "direct-service problem" of the makeup of LEGCO. Once they had obtained Chinese consent, they met with Hong Kong Governor Chris Patten to promote their "first easy, then hard" negotiating plan. Such a mediation role was one that the HKDL was unable to play.

But the HKDL has never seen the LP as its major election foe, as the major threat that it feels has come

Alliance for the Betterment of Hong Kong [DABHK] on 10 July 1992. While the DABHK had only 57 founding members, there was no lack of figures with election potential. While they had lost to the HKDL in the earlier Executive Council [EXCO] by-election in the Southwest District, the very first time they raised the DABHK flag in an election, they showed their full organizational might in that district.

In October 1993, not long after the independent "Commission on Elections and Election-District Boundaries" appointed by the Hong Kong Government had announced its division of the directly-elected seats in the 338-member 1994 district parliament, the DABHK's district members criticized it very quickly. Their officers indicated to the press that they were making active plans for the next year's district parliamentary elections.

The differences between China and Britain on election plans for Hong Kong prior to 1995 remain very deep. The news released repeatedly by both sides on "plans to each go their own way" has led to much speculation. Some surmise that the DABHK might be forced to follow Beijing's line, by renouncing or even boycotting elections not approved by Beijing, to avoid being blamed for supporting Britain's conspiracy of "three violations." But as the DABHK had indicated as far back as at the time of its founding that it would take an active part in elections, its not taking part in elections arranged unilaterally by the British Hong Kong Government prior to 1997 would be a great blow to its future development. Moreover, the indications of recent DABHK words and deeds are that even if there is a final fallout between the Chinese and British, it will still launch a full-scale offensive in the coming three-levels of parliamentary elections.

In fact, some directly-elected HKDL LEGCO members have also recently expressed privately that they are highly likely to use "one-on-one" tactics to counter the DABHK's "four great stars."

These so-called "four great stars" are the DABHK's Ts'eng Yu-ch'eng [2582 6877 2052], T'an Yao-tsung [6223 5069 1350], Ch'eng Chieh-nan, and Ch'en Wan-hsien.

Ts'eng Yu-ch'eng is one of the few DABHK's leaders who are fluent in English. Since elected party chief, he has become the unofficial international spokesman for the whole camp in Hong Kong with close ties to Beijing. While he received less votes than most current legislators, he has at least passed the first test of widespread name recognition.

had even a little daring, by having T'an Yao-tsung take part in the Kowloon-Central District election, and raising labor circles to give Ch'en Wan-hsien its functional-constituency seat, it was highly likely that they would both be elected at the same time. And while Ch'en Wan-hsien and Ch'eng Chieh-nan both lost in the 1991 elections, they still won more votes than DABHK candidates in other election districts.

So it is quite understandable that the HKDL would regard these four as its strongest foes. The DABHK was also very conspicuous in various public opinion polls, with a political-party questionnaire by Hong Kong U's Social Science Studies Center showing the DABHK for the first time at the end of November 1992 jumping to the fifth best-received political party in Hong Kong, replacing right from the start the former ranking of the "Liberal Democratic Coalition" [LDC] to place fifth.

In the year-plus since then, the DABHK's showing has fluctuated at around 43-46 percent, with no breakthroughs, generally tailing the HKDL, the "Democratic Livelihood Progressive Association" [DLPA], the Hui-tien [Collection Point] [CP], and the LP. But meanwhile, HKDL support is down from its 61 percent in early December 1991 to 55-56 percent recently.

Certain key HKDL figures hold that it is a normal phenomenon for a political party's public support to slide after a general-election victory, which is also often the case abroad. But HKDL's difficulties may be far more severe than it imagines.

While the HKDL has always presented its image as the "forerunner of democracy," it has made absolutely no progress in the 1994 and 1995 election arrangements due to the Sino-British dispute. In other words, in the next election, it is going to be hard for the democracy faction not to lose the trust that it has built up over a long period of time in its platform of striving to speed up the pace of democracy. In addition, public studies are finding that as 1997 nears, Hong Kong residents seem increasingly able to accept the mainland Chinese regime. All of these factors might cause a loss of votes for the HKDL.

The changes in the election system will also carry minuses for the democracy faction. After the change to a "system of one vote per seat" in 1995, certain current directly-elected members with less might will no longer be able to rely on the so-called "coattails effect," or be able to depend on the name-recognition of others to get elected. In fact, once the "one seat system" goes into effect, it is going to be hard for the HKDL to continue to coordinate its candidate list with other friendly organizations, such as CP and DLPA, with difficulty at the time avoiding a situation in which a third party profits from the struggle. This is particularly likely to occur in districts, such as Youchienwang, Tapu, and Shat'ien.

Since the 1991 elections, the concern of the two large insider factions, the HKDL and the LP, has often been

leaving one with a sense that they lack long-range planning. At many times, individual members seem to be all-involved in daily parliamentary matters, leaving them unable to act freely. With 1994 here, congressmen of all political parties are starting to face reelection pressures, some of whom have talked about lacking time and energy, as their affairs in both parliament and their election districts are heavier than they had thought. On the other hand, the DABHK has only one LEGCO member, T'an Yao-tsung, leaving its other leaders without legislative pressures, so with much more time to do as they please in playing an opposition role outside of parliament.

But while all political parties have been focusing on the elections in these two years, they have all been neglecting for several years a basic development direction.

The "Hong Kong Youth Society" commissioned the Hong Kong U Social Science Studies Center to conduct in May 1993 a study of "young people's views on political organizations." They polled 558 young people between the ages of 15 and 29. While the results have not been widely noted by the media, the relevant data is certainly very enlightening about Hong Kong's future political developments.

The poll showed that over 90 percent of those polled had not taken part in any activities sponsored by political organizations in the past year. And even when the political organizations that young people evaluate most highly issued them invitations, 70 percent said that they still could not accept. In addition, 60 percent of respondents stated that they would neither support political organizations with money or convey their views to them.

While young people expressed much reservation about taking part in the body politic, nearly 60 percent of respondents over 17 years of age still said that they would vote in the coming elections.

If the proposal to lower the voting age to 18 is finally approved, to include the group of young people who were just too young to vote in the 1991 LEGCO election, it is projected that those eligible to vote for the first time in the 1995 LEGCO election will make up about one-fifth of the whole electorate. And while their direction will be enough to impact the overall situation, not one political party in the last 3 years has worked hard for their support.

**'Sharp Words' Between Hao Po-tsun, Li Teng-hui**  
94cm0128A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 353, 18 Dec 93 pp 12-16

[Article by Huang Kuang-chin (7806 0342 5367): "Hao Po-tsun Sings a Solo in Forcing Emperor To Abdicate; Li Teng-hui Brazenly Shows Him a Symbol of Cessation"]

[Excerpts] [passage omitted] The exchange of sharp words between Hao Po-tsun and Li Teng-hui at the



December not only openly reflected the protracted struggle between the chairman and vice chairman of the Kuomintang, but also represented Hao Po-tsun's first, official "showdown" with Li Teng-hui and his attempt to "force the emperor to abdicate."

The fundamental reason leading to Hao Po-tsun's direct challenge to Li Teng-hui at the standing committee meeting held on 8 December was Hao's complete disappointment of Li's so-called principle of sincerity and trust. He tried to make use of his speech at the meeting to inform countrymen about the possibility of Li Teng-hui's plan to move up the date for the direct presidential election. There were three reasons that led to what happened at the standing committee meeting.

1. On the previous day of the meeting, Hao Po-tsun learned from a newspaper report that the State Policy Center had begun to carry out studies on constitutional amendments toward something similar to the "Fifth Republic" which was often called the "semi-presidential system" or the "two-chief system."

2. Factions and groups of the National Assembly and the "pro-Li Teng-hui" deputies of the National Assembly covertly gathered together from time to time, planning to amend the Constitution on a large scale in the form of revising the text of the constitution in April next year.

3. He was also prompted by Hsu Li-nung's withdrawal from the Kuomintang and Li Teng-hui's plan to dispel Feng Hu-hsiang from the party.

Hao Po-tsun was fully prepared to deliver his speech at the 8 December standing committee meeting. Early in the morning on 8 December, he went to his office on the Chungshan Road North to call his aides to help him draft a written statement. Meanwhile he also personally prepared a five-point gist of his speech, which he later pointed out to Li Teng-hui. The contents of his speech were similar to those of the agreement reached by the four Kuomintang heads, namely Li (Li Teng-hui), Hao (Hao Po-tsun), Chiang (Chiang Yen-shih) and Sung (Sung Chu-yu) at the Taipei Guest House on 11 March 1992 prior to the Third Plenary Session of the Kuomintang Central Committee. On top of this, he also added the contents of the confidential documents which he and several scholars prepared prior to the 14th National Kuomintang Congress to "save the party, protect the Constitution and safeguard the nation." These contents were also parts of his speech when he spoke to the overseas Chinese in Washington D.C., during his second trip to the United States.

Hao Po-tsun arrived at the Central Committee Conference Hall on time. No one knew that this Kuomintang Vice Chairman who very seldom made speeches on several occasions had two statements to make. The meeting went on smoothly. When discussions were made on the fourth item of the agenda and after Minister Kuo Wei-fan finished his report on relevant issues concerning the "University Law," many standing committee members one after another expressed their views on various

questions on the University Law, the education system, and the allocation of funds to public and private schools. When discussions on this topic ended, participants of the meeting had begun to pack their things and were making preparations to break up. Li Teng-hui also made a concluding remark. He asked: "Are there any questions? If there is no question, we will then ... [HSIN HSIN WEN ellipsis]. Li Teng-hui did not have time to say that "the meeting is now over." It was at that time that Hao Po-tsun who sat in the front row on Li Teng-hui's left side suddenly raised his hand seeking to say something. Although another standing committee member Kuan Chung also raised his hand, Hao Po-tsun ignored this comrade. Even without waiting for Li Teng-hui to call his name, Hao stood up on his own and put forward a provisional motion. At that time, some participants had already packed up their things, while others had half finished their packing. However, all of them were shocked by Hao's sudden movement, and unanimously looked at him while holding their breaths.

As soon as Hao Po-tsun opened his mouth, he said: "I hope everyone would excuse me if what I say today is impolite or inappropriate to the chairman or any participant of this meeting, because what I say today is entirely for the party and the nation."

Hao Po-tsun then took out the notes he prepared and began to read. In addition to what was on the notes, he also bluntly said: "I disagree if anyone seeks to change the current system to a two-chief system and to increase the presidential power. I also disagree if the president tends to favor the president-led system. The president-led system involves many things. It is too complicated. It involves so many things that even the constitutional government system will vacillate. In the past, only issues such as the popular election of appointees or of the president and the term of the legislature were being discussed. Is it strange that all of sudden there are so many problems cropping up? In principle, we hope that we are not going for the president-led system. Our system should be similar to that in Singapore. The Singapore president is also elected by popular votes, but there is no president-led system there. According to the provisions of the constitution, the president should not enjoy so much administrative power. I believe that the party should restrain itself in this respect!" He also said directly to Li Teng-hui: "It is known outside that the high authorities have a plan to move up the date for the direct presidential election. It is not so good to let people think in such a manner. It may create great disorder. It would also become a resource for trouble. It is hoped that Chairman Li would be able to clarify this point and inform people that he has no plan to do so!"

Hao Po-tsun then took out the note of his second written statement. That was the note of his speech delivered at the "Forum for National Construction" in Washington D.C. in the United States on 13 November. Hao Po-tsun requested that his speech be put into the record of the standing committee meeting after he finished reading the note.

During Hao Po-tsun's speech, Li Teng-hui did not look too well. Nor did he look at Hao Po-tsun. When the latter finished half of his speech, Li Teng-hui all of sudden seemed lost in thought. He began to lower his head and took notes. As for those who were listening, some acted tense with their hearts beating fast. One staff member even nudged another one sitting next to him, saying: "Look, the Chairman was mad at all times!" Nevertheless when Hao Po-tsun sat down after he finished reading his statements, Li Teng-hui stood up and sought to give a ruling. However, for a moment he did not know what to do when he stood there. After pulling himself together, he then replied while nearly "gnashing his teeth." Some one who was present at the meeting said that Li Teng-hui was so excited that he had twice addressed "Vice Chairman Hao" as "Chairman Hao." Li Teng-hui said: "What Chairman Hao (that was the first time he wrongly addressed Hao) just said was a rumor outside the party. There is no need to put such rumor into the record, because there is simply no such thing. I have never made any decision on this issue from the beginning to the present moment. All this does not count. How can we put this thing into the record? Let the Policy Coordination Commission handle this matter!"

Li Teng-hui kept on talking. Originally he planned to turn over Hao Po-tsun's written statements to the Policy Coordination Commission for handling, but he once again thought that it was inappropriate, and changed his mind. He said: "If this matter is really put on the record and subject to official discussion, it would then become a source of trouble, because outsiders would think that we are once again not on good terms, shouting and bickering. What should we do then? All this would certainly create disorder within the party!"

Li Teng-hui again said: "In fact, no decision was made on how the president should be elected. This matter was only touched upon during the last meeting on constitutional reform." Participants said, it was at that moment that Li Teng-hui started to look slightly relaxed and less solemn. Looking around, he said to Lin Cheng-chih, a national assemblywoman and Chairman of the Committee on Work Concerning women: "In fact, no decision has been made even now on the form concerning the presidential election, the term of the legislature and the Premier's authority to countersign. I believe, we must study the issue on the premier's authority to countersign. Otherwise, the premier has to countersign his own resignation when he decides to step down. Is there such thing in the world?" Lin Cheng-chih promptly nodded. Li Teng-hui went on saying: "Right now, there is no need to discuss these issues. Nor should they be put on the record. The Party's Central Committee will set up a group concerning constitutional reform by the end of December. It is hoped that Vice Chairman Hao and other relevant Central Standing Committee members and those cadres in charge of day-to-day business would be able to participate in the group to discuss issues!" At that moment, he stood up to see if anyone had any more question. Right after that, he said: "The meeting is now

over." During that short period, no one raised any hand or spoke. Even Hao Po-tsun himself kept quiet. [passage omitted]

#### Investigation Bureau Gets Involved in Elections

94CM0128B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 354, 25 Dec 93 p 55

[Article: "Different Directors of Bureau of Investigation Get Involved in Elections—Shen Chih-yueh Did It Openly; Weng Wen-wei Followed Old Practice; Wu Tung-ming Emphasized Election Appraisals"]

[Excerpt] [passage omitted] When Shen Chih-yueh was the director of the Bureau of Investigation, he was directly involved with elections. The bureau not only helped work out the election strategies, but also sent out its staff to directly supervise and help [the Kuomintang] candidates in election. According to information from a staff member of the Bureau of Investigation, Hsiao Tien-tsan who was a National Policy Advisor to the President once asked the Bureau of Investigation to dispatch a deputy department chief named Chang to help him in Chiayi County run for the legislature.

During the Yuen Ch'eng-chang era, the Bureau of Investigation was also involved in elections, since Yuan used to work for the Garrison Headquarters. Meanwhile, in order to strengthen its ties with the Kuomintang Headquarters, the bureau led by Yuen Ch'eng-chang started to print the "Daily Situation News" which was dispatched to party and government leaders everyday by the bureau's code office. When Weng Wen-wei was in charge of the bureau, he also followed Yuen's practice. Some changes took place only after Wu Tung-ming took over the bureau.

During the early days when Wu took over the bureau, there were not many changes as compared with his several predecessors. Wu only followed what Weng Wen-wei did by not sending people out to keep an eye on election campaigns and help candidates win the election. However, his appraisal of the situation in the election had become more accurate in each passing day because of his rich experiences in the past. During the election campaign for the Second National Assembly, the appraisal of the situation in election made by the Bureau of Investigation was praised by Li Teng-hui.

As for the appraisal of the situation and the collection of information on elections, Chen Chung-hsin, head of the Bureau of Investigation's First Department, pointed out that the Bureau of Investigation "no longer made any election appraisal since the founding of the Second National Assembly." However, Legislator Ts'ai Shih-yuan said that "Wu Tung-ming's words were good up to the election of the Second Legislature." It is understood that whenever an election took place in the past, a joint office was set up for the bureau's First Department which was responsible for the collection of information, its Third Department which was responsible for political intelligence and its Fifth Department which was responsible for

working out plans to take actions to form a command post for the election. This practice ended prior to the election of the Second Legislature. No such joint office was set up during this year's election of county magistrates and mayors.

Nevertheless, Chang Chi-ping, head of the bureau's Pingtung Station was drawn into the cloud of suspicion for helping candidates to win the election this year.

Usually the Bureau of Investigation very seldom investigates and handles cases except devoting itself in gathering information on elections. However, the bureau's Pingtung Station interviewed and searched Chu Heng-wei, head of the Department of Urban Planning of the Pingtung County Government seven days prior to the election day this year, turning its interference during the last week of the election into a major event which affected the ballot.



This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain discredits, FBIS renders personal names and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Central Eurasia, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semi-monthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6736, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.

**END OF**

**FICHE**

**DATE FILMED**

**00 APR 04**

